Public Service Commission of Wisconsin
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BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Joint Application of Wisconsin Electric Power Company and Wisconsin Gas LLC for a Base Rate Freeze for Test Years 2018 and 2019	Docket No. 5-UR-108
and	and
Application of Wisconsin Public Service Corporation for a Base Rate Freeze for Test Years 2018 and 2019	Docket No. 6690-UR-125

JOINT COMMENTS OF THE CITIZENS UTILITY BOARD AND THE WISCONSIN INDUSTRIAL ENERGY GROUP ON THE COMMISSION STAFF'S MEMORANDUM

I. Introduction

The Citizens Utility Board ("CUB") and the Wisconsin Industrial Energy Group ("WIEG")[1] submit these comments on the Commission Staff Memorandum of July 19, 2017, discussing the Joint Application of Wisconsin Electric Power Company ("WEPCO"), Wisconsin Gas LLC ("WG"), and Wisconsin Public Service Corporation ("WPSC") (together the "WEC Utilities" or "Applicants").

In their application, the WEC Utilities seek to avoid a full base rate proceeding setting new rates effective in 2018 by asking the Commission to approve a proposed settlement agreement they reached with certain large industrial and commercial

[1] WIEG member companies Charter Steel, Domtar A.W. LLC, Georgia-Pacific LLC, and Quad/Graphics, Inc., are not participating in these Joint Comments of CUB and WIEG. Each of these companies signed the proposed settlement agreement with the WEC Utilities, which includes their support of the agreement without modification. One or more member companies may file comments on their own behalf.

customers. Under the proposal, the WEC Utilities' base rates would remain at current levels in 2018 and 2019, Wisconsin Electric would continue to defer through 2019 increases in transmission expenses and the alleged lost Presque Isle Power Plant ("PIPP") System Support Resources ("SSR") revenues, with the costs of increased deferrals offset by accelerating the recognition of certain tax benefits and creating a new regulatory asset (equal to $349.9 million). The proposal would also extend the current earnings sharing mechanism for WEPCO and WG and establish a similar earnings sharing mechanism for WPSC. Finally, the proposal would introduce one, and indefinitely extend other, market-based rate tariffs for large industrial and commercial customers.[2]

The WEC Utilities, and in particular, WEPCO, continue to charge customers—including CUB and WIEG members—electric rates that are among the very highest in the Midwest.[3] For customers paying these higher than average rates, the settlement as proposed creates more problems than it solves. Moreover, although nominally presented as affecting only rates and costs for ratepayers in 2018 and 2019, the proposal, if accepted, will negatively affect rates over the next 50 years. CUB and WIEG jointly recommend that the Commission accept a modified settlement to ensure that the

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[2] CUB and WIEG are each filing comments separately regarding Applicants market-rate tariff proposals, with the exception of the proposal to extend the WPSC RTMP deferral, which is discussed in Section II.C.6. of these joint comments. Therefore, statements regarding the proposed settlement agreement in these joint comments do not include the market-rate tariff elements of the proposal, which are addressed in CUB and WIEG's separate comments.

[3] See Exhibits A and B, Residential Rate comparison and Commercial/Industrial Rate comparison.

resulting rates are just and reasonable in 2018 and 2019 -- and that the impact of continued deferrals and escrows on future rates is appropriately mitigated.

Table 1, a summary of CUB and WIEG's recommendations, shows support for all of Staff's conditions except that some conditions are amended to incorporate corrections and additional modifications, which result in greater customer benefits compared to Staff's proposal. CUB and WIEG's recommendations will result in savings to customers in the near term and beyond – via a bill credit and future savings through reduced escrow balances and a more effective earnings sharing mechanism. Numbering in the table follows the staff recommendation bullet points on pages 5-6 of the Staff Memorandum and is repeated in Section II, *infra*:

Table 1: Staff Conditions, With CUB/WIEG Recommendations in Red.

Number	Conditions
0	Staff Adjustments to support rate freeze are just and reasonable and provide a reasonable rate of return to the WEC utilities
1	Reject the WEC Utilities' proposal to offset certain deferred costs with accelerated tax benefits
2	a. Require that carrying costs on the "old" transmission escrow, be calculated using the short-term debt rate, rather than the weighted average cost of capital; b. **Reduce existing transmission escrow by $9.77 million to account for delay in recognizing ATC ROE refund and ADIT repair allowance**
3	Require that WEPCO and WPSC recognize all current transmission costs in the year they are incurred, thereby stopping the growth of the "new" transmission escrow
4	Accrue carrying costs into the transmission escrow balance so that carrying costs may be recovered in the same manner as the balance
5	**a.** ~~Discontinue additional deferrals into the escrow related to the PIPP SSR payments, address recoverability and/or amortization of the balance in the next full rate case, and do not allow recovery of annual carrying costs on the balance during any rate freeze period~~**Disallow existing SSR escrow balance and any future deferrals;** **b. Return value of Mines discount as a refund to customers**

6	Discontinue WPSC's Real Time Market Pricing (RTMP) deferral
7	Discontinue the Section 199 escrow, address recoverability and/or amortization of the balance in the next full rate case, and do not allow recovery of annual carrying costs on the balance during any rate freeze period
8	a. Direct WEPCO, WG and WPSC to record the annual amortization expense amounts identified in Appendix B beginning in 2018, **except that SSR Escrow balance shall be $0 (condition #5a) and "old" transmission escrow balance shall be reduced by $9.77 million (condition #2b)** b. **Require a refund to customers of $12.889 million due to no net amortization of the PTF escrow account in 2018 and 2019**
9	Extend the deferral of depreciation and return on cost overruns of WPSC's ReACT project through 2019, such that recoverability can be determined in the next full rate case and do not recover carrying costs on the balance during the rate freeze period
10	Accept the WEC Utilities' proposal to establish an earnings sharing mechanism for WPSC for 2018 and 2019; ~~similar to that in place for WEPCO and WG~~ **for WPSC, WEPCO and WG, modify the ROE trigger to 9.8% and earnings test on a regulatory basis instead of fuel basis, and** extend the ~~WEPCO and WG~~ earnings sharing mechanism through 2019

As a matter of procedure, while a full base rate proceeding would be the best way of ensuring that ratepayers are paying only for the costs necessary to provide them with reasonable and adequate service, the Commission has approved rate case settlements in the past, as the WEC Utilities observe in their application.[4] Notably, most such settlements have been negotiated not only with Staff, but with CUB and WIEG, who together represent the vast majority of ratepayers. *See, e.g.*, Final Decisions in 5-UR-107 (Wisconsin Electric 2015 test year rate) and 4220-UR-120 (NSPW 2015 test year rate case); 4220-UR-122 (NSPW 2017 test year rate case); 6680-UR-120 (WPL 2017 and 2018 test years), 6680-UR-119, 6680-UR-118. The settlement warrants the

[4] While CUB and WIEG greatly appreciate Staff's efforts to examine and analyze the assumptions and conclusions underlying the WEC Utilities' proposal, Staff acknowledged the time constraints on their review. *E.g.*, Staff Memo, p. 20-24.

Commission's closest scrutiny because of the "take-it-or-leave-it" nature of this proposal and the WEC Utilities' comparably high rates.

Short of a full base rate case, the conditions and modifications identified by Staff and by CUB and WIEG will ensure that the WEC Utilities' rates and continued deferrals are fair and reasonable for all ratepayers in 2018 and 2019 and do not adversely affect rates in future years. Our recommendations will yield savings for customers via a bill credit. CUB and WIEG urge the Commission to approve the proposed settlement agreement only with the reasonable conditions and modifications identified by Staff and the additional conditions and modifications discussed herein, as a fair compromise that would avoid the need for a full contested rate case.

II. The Commission should approve the WEC settlement proposal only with the conditions and modifications identified by Staff and the additional conditions and modifications proposed by CUB and WEIG.

Foundational to the CUB and WIEG Joint Comments is the Staff Memorandum, including Appendices A and B, which demonstrates that the WEC Utilities will earn a reasonable return in 2018 and 2019 with no rate increases and no additional Transmission, SSR, or Section 199 deferrals, and without the tax proposal. The Staff Memorandum appropriately corrects the WEC Utilities' claimed revenue requirements to reflect the Commission's standard ratemaking adjustments; the full transmission expense, escrowed mine revenue amounts, full PIPP costs, and the deferral of the return on the old and new Transmission escrow accounts within the accounts themselves; and additional merger-related savings, among other adjustments.

The Staff performed a comprehensive analysis of the test year revenue requirement for each of the WEC Utilities, assuming no settlement. CUB and WIEG agree with the Staff analysis and revenue requirements in nearly all substantive respects. The modifications and conditions that CUB and WIEG urge through these Joint Comments are necessary to avoid excessive deferrals under the settlement. If the WEPCO Transmission and SSR deferrals continue unabated, they will add more than $346 million (before additional carrying costs) to the escrow accounts during 2018 and 2019, which will cause increases in base rates in future rate cases. These costs should not be deferred. They can and should be recovered without any increases in the present base rates in 2018 and 2019. None of the proposed deferrals is necessary, even with a rate freeze for 2018 and 2019, after the WEC Utilities' claimed revenue requirements are corrected by the ratemaking adjustments identified by Staff and by other adjustments, including additional merger savings.

CUB and WIEG thus recommend that the Commission adopt Staff's proposal along with CUB and WIEG's recommendations as shown in Table 1.

A. The WEC Utilities' revenue deficiencies are vastly overstated and should be corrected with the ratemaking adjustments identified by Staff.

The Staff Memorandum provides a summary of the Staff's financial review of the WEC Utilities and a calculation of the revenue deficiency or surplus for each Utility as if it had filed a rate case for 2018 and 2019. The Staff analysis demonstrates that the WEC Utilities will earn a reasonable return on equity under current base rates, without the need for additional transmission, SSR, or Section 199 deferrals or the WEC tax proposal. *See* Staff Memorandum, Appendix A.

Using WEC's claimed revenue deficiencies for each of the WEC Utilities as a starting point, Staff made a series of ratemaking adjustments that the Commission typically makes in a comprehensive rate proceeding. *See* Appendix A. The Staff also made adjustments consistent with achieving a two-year base rate freeze and that will provide each of the WEC Utilities the opportunity to earn a 9.8% or greater return on equity. *Id.* As described more fully in section B. below, CUB and WIEG believe that a 9.8% return on equity is reasonable based on the Commission's recent decision for Madison Gas & Electric (MGE) and in light of the current national average for authorized returns.

CUB and WIEG strongly endorse the results shown on Appendix A, which shows that on a total WEC Utilities basis, the net revenue requirements are $4.363 million, which should be offset by synergy savings not included in staff's calculations.[5] CUB and WIEG also recommend that additional reductions in revenue requirements as a result of our modifications should be refunded to customers via a bill credit. These reductions in the revenue requirements include: a reduction in the Staff's proposed amortization of WEPCO Power the Future ("PTF") expenses and an increase in revenues to restore the tariff discounts reflected in the WEPCO mines revenues.

[5] $4.363 million is a result of summing revenue requirements for WEPCO, WPSC (gas and electric), WG, WEGO and VA Steam.

CUB and WIEG agree with the Staff that there should be no additional deferrals of transmission expenses, lost SSR revenues, or income tax expense due to not taking Section 199 deductions. In addition, CUB and WIEG demonstrate that WEC's calculation of the WEPCO Transmission and SSR escrow account balances at December 31, 2017, are overstated and recommend that they be corrected and reduced in this proceeding. If the balances are not reduced in this proceeding, then the Commission should place WEPCO on notice that it will review the amounts in a subsequent comprehensive base rate proceeding.

B. The return on equity for the WEC Utilities is excessive and should be reduced.

The current authorized ROEs are 10.2% for WEPCO and WEGO, 10.3% for WG, and 10% for WPSC respectively. According to the WEC Utilities' proposal, if the utilities had assumed a full base rate case option, the WEC Utilities would have proposed the current authorized returns for WEPCO, WEGO and WG. For WPSC, however, the Applicants would have sought an ROE of 10.2% (for electric and natural gas), 20 basis points higher than what the Commission authorized in WPSC's most recent base rate case proceeding in 2015 (6690-UR-124).

Not only is the currently authorized ROE for the WEC Utilities excessive, but the proposal to increase WPSC's ROE by 20 basis points, assuming a full base rate alternative, is unreasonable and not justifiable. Reducing the ROE in this case would enable the Commission to sustain its policy course that has benefited customers through gradual reductions in the ROEs of Wisconsin investor-owned utilities.

1. Electric Utilities

The most recent RRA Regulatory Focus report, issued on July 26, 2017, indicates that for electric utilities nationwide, in all cases including those involving only riders, the average authorized ROE in 2016 was 9.77% and, in the first half of 2017, 9.76%. Excluding rider cases, the average ROE in 2016 and the first half of 2017 was 9.6%. (RRA Regulatory Focus, S&P Global Intelligence, July 26, 2017.)

Recognizing the change in market conditions and the declining trend in ROE on a national basis, the Commission has made efforts to gradually reduce the ROEs for the major investor owned utilities in Wisconsin. Since WEPCO's last base rate case in 2014, the Commission authorized an ROE of 10% for WPSC in 2015. In 2016, in the MGE case, 3270-UR-121, in its Final Decision issued on December 22, 2016, the Commission authorized 9.8%, finding that this ROE "most reasonably balances the needs of ratepayers and investors." (PSC REF. # 295447.) The Commission also recognized that a 40 basis point adjustment (from MGE's previously authorized ROE) was "not unprecedented and puts MGE in line with national trends." *Id.*

Further, the Commission has accepted settlements where staff used a lower ROE than previously authorized in a full rate proceeding. For example, prior to submitting an application, WPL entered into settlement discussions with Commission staff, CUB, and WIEG, and worked collaboratively to negotiate a stipulated agreement regarding the treatment of non-fuel revenue requirements. That stipulated agreement resulted in an ROE of 10% (40 basis points lower than the previously authorized ROE), which the

Commission authorized in that case, Docket 6680-UR-120. (Final Decision, PSC REF. # 295820.)

Thus, neither the WEC Utilities' proposal to retain the previously authorized ROE for WEPCO at 10.2% nor the proposal to increase WPSC's ROE from an authorized 10% to 10.2% is reasonable. Staff's use of 9.8% ROE to impute the revenue requirements for the electric utilities is well justified particularly in light of the national averages and the Commission's decision in the MGE case.

2. Gas Utilities

The WEC Utilities in Wisconsin are earning significantly higher authorized ROEs for natural gas operations compared to their sister affiliates in other jurisdictions:

Utility	State	Authorized ROEs
WEGO	WI	10.2%
WPSC (gas operations)	WI	10.0%
Wisconsin Gas	WI	10.3%
Peoples Gas	IL	9.05%
North Shore Gas	IL	9.11%
Michigan Gas Utilities	MI	9.9%
MN Energy Res. Corp.	MN	9.11%

Further, the July 26, 2017 RRA Regulatory Focus report indicates that the average authorized ROE for natural gas was 9.5% in 2016 and 9.54% in the first two quarters of 2017 respectively. (RRA Regulatory Focus, S&P Global Intelligence, July 26, 2017.) Consequently, while one could argue for even a bigger reduction here, Staff's use of 9.8% ROE to impute the revenue requirements for natural gas operations is reasonable and certainly more consistent with current market conditions compared to the WEC Utilities' proposal.

C. CUB and WIEG recommend that the Commission accept the proposed settlement agreement with the following conditions and modifications.

After adjustments to the WEC Utilities' revenue deficiencies as described above, CUB and WIEG recommend that the Commission accept the settlement agreement proposed by the WEC Utilities subject to the following conditions and modifications. These recommendations are based on the analysis described in the Staff Memorandum and CUB and WIEG's independent analysis of the issues.

1. Staff Proposal: Reject the WEC Utilities' proposal to offset certain deferred costs with accelerated tax benefits

a. Summary of CUB and WIEG Response to Staff Proposal

CUB and WIEG strongly agree with the Staff recommendation on the WEC Utilities' tax proposal and provide additional evidence that the proposal should be rejected. As noted, CUB and WIEG agree with the Staff that no additional transmission expense or lost SSR revenue deferrals are necessary and that present rates are sufficient or greater than necessary to recover the WEC Utilities' projected costs for 2018 and 2019. On this basis alone, the Commission need not consider WEC's tax proposal.

b. Description of the WEC Tax Proposal

The WEC Utilities propose that WEPCO rapidly amortize its liability ADIT related to the "repair allowance" tax deduction and use it to offset transmission expense and lost SSR revenues, in lieu of continued deferrals to the new Transmission escrow account and SSR escrow account.[6] If adopted, this rapid amortization will reduce the liability ADIT that otherwise would be subtracted from WEPCO's rate base, thus increasing rate base and the revenue requirement. The WEC Utilities also propose to create a new regulatory asset from the liability ADIT, which will be amortized and recovered from customers over 50 years. WEPCO intends to include the regulatory asset in rate base starting with the 2020 test year. Thus, the proposal inexplicably and unjustifiably increases rate base twice: first by a reduction in the liability ADIT subtracted from rate base, and a second time by including the regulatory asset in rate base.

As the Staff noted, the WEC Utilities' proposal does not reduce deferrals that must be recovered from WEPCO's customers; instead, it simply defers costs into a new regulatory asset account rather than the existing escrow accounts. The following table demonstrates that the deferrals are the same in total, so there is no benefit to customers from a reduction in deferrals as the WEC Utilities claim. In fact, by rearranging the balance sheet, the WEC Utilities' proposal will harm customers by increasing the return on the rate base amounts compared to the status quo over the next 50 years.

[6] For additional detail and discussion of the tax proposal, please see attached Exhibit C, Analysis of Lane Kollen.

COMPARISON OF WEPCO BALANCE SHEET TRANSMISSION AND SSR ESCROW ACCOUNTS UNDER STATUS QUO TO ESCROW AND REGULATORY ASSET ACCOUNTS UNDER WEC PROPOSAL							
	Status Quo ($Million)			WEC Proposal ($Million)			
	Transmission Escrow Account	SSR Escrow Account	Total	Transmission Escrow Account	SSR Escrow Account	New Regulatory Asset	Total
12/31/17 Balance	271.016	298.882	569.898	271.016	298.882		569.898
2018 Net Deferral	48.077	102.010	150.087	-	-	150.087	150.087
12/31/18 Balance	319.093	400.892	719.985	271.016	298.882	150.087	719.985
2019 Net Deferral	91.756	104.114	195.870	-	-	195.870	195.870
12/31/19 Balance	410.849	505.006	915.855	271.016	298.882	345.957	915.855
Source: Appendix B to Staff Memorandum							

WEPCO and WPSC have already taken the increased repair allowance deductions. These are reflected in the repair allowance ADIT subtracted from WEPCO and WPSC rate base in RR-1 and from WEPCO rate base in Appendix A. Thus, the repair allowance ADIT presently results in a lower revenue requirement for WEPCO and WPSC customers without a rapid amortization of the ADIT or any action by the Commission. More specifically, WEPCO and WPSC customers receive a reduction in the revenue requirement equivalent to the grossed-up rate of return applied to the repair allowance ADIT that is subtracted from rate base. This benefit to customers will continue beyond 2018 and 2019 *unless* the Commission approves the WEC Utilities' proposal to rapidly amortize the WEPCO repair allowance ADIT to offset increases in transmission expenses and lost SSR revenues. The proposal will reduce the ADIT that is subtracted from rate base and increase WEPCO's revenue requirement in 2018 and 2019 and future years, to the disadvantage of customers.

c. No Transmission Expense or Lost SSR Revenues Deferrals Are Necessary in 2018 and 2019

The WEC Utilities' calculation of the WEPCO revenue requirement for 2018 and 2019 without the settlement indicates a revenue deficiency of $318.6 million, which as noted above is overstated. Instead of a rate increase to recover this alleged deficiency, the WEC Utilities propose to defer $150 million in 2018 and $195.8 million in 2019 of the transmission expenses and lost SSR revenues through a rapid amortization of the repair allowance ADIT of equivalent amounts.[7] This reduces ADIT, but results in an equivalent increase to a new regulatory asset.[8] Put differently, instead of deferring transmission expenses directly to the new Transmission or SSR escrow accounts, as it presently does, or directly to a new regulatory asset, the WEC Utilities propose to defer these expenses *indirectly* to a new regulatory asset through a rapid amortization of the repair allowance ADIT.

The Staff Memorandum demonstrates that there is only a minimal WEPCO revenue deficiency, and that additional merger savings could eliminate the deficiency altogether. In other words, WEPCO's present revenues are sufficient to recover the

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[7] The WEC Utilities provided the accounting journal entries in response to CUB discovery. *See* 3-CUB-Inter-6 (PSC Ref #304897, including #301833 referenced in that response) and 3-CUB-Inter-9 (PSC Ref #304899, including #304904 referenced in that response).

[8] More specifically, with the tax proposal, the WEC Utilities seek to defer WEPCO transmission expense of $48 million in 2018 and another $91.7 million in 2019 to a new regulatory asset and recover the new regulatory asset over the next 50 years. WEPCO is presently authorized to defer transmission expense in excess of $250.7 million to the "new" Transmission escrow account. In addition, WEC seeks to defer WEPCO lost SSR revenues of $102 million in 2018 and another $104.1 million in 2019 to the same new regulatory asset and recover the new regulatory asset over the next 50 years. CUB and WIEG disagree with the WEC Utilities that WEPCO is presently authorized to defer these lost SSR revenues, as discussed in greater detail below.

entire projected transmission expense and all PIPP costs that previously gave rise to the SSR revenues in 2018 and 2019, after the RR-1 analysis is properly adjusted to reflect ratemaking adjustments traditionally imposed by the Commission and other adjustments unique to WEPCO's facts and circumstances, including potential additional merger synergy savings. Thus, as a threshold matter, there is *no* need to defer any of the transmission expenses either to the present new Transmission escrow account or to a new regulatory asset. There is *no* need to defer lost SSR revenues to the SSR revenue escrow account or to a new regulatory asset. Thus, there is *no* need for the WEC Utilities' proposal to rapidly amortize the repair allowance ADIT, indirectly defer it to a new regulatory asset, and then recover it over 50 years.

If the Commission agrees with Staff, CUB, and WIEG that WEPCO's present revenues are sufficient to recover all test year costs, then it need not consider the WEC Utilities' tax proposal. Nevertheless, even if WEPCO's present revenues were insufficient, the tax proposal is flawed and substantially harms customers. The WEC Utilities' tax proposal will cost customers significantly more than if such transmission expenses and lost SSR revenues are deferred to the existing Transmission and SSR escrow accounts, assuming that such expenses are not fully recovered in present rates.

d. The WEC Utilities' Proposal to Rapidly Amortize Repair Allowance ADIT Significantly Harms Customers.

If the Commission finds that additional transmission expense or lost SSR revenues deferrals are appropriate, it should order the deferrals to be made directly to the two existing escrow accounts, which would earn a debt-only return (Transmission) or no return at all (SSR).[9] Under the WEC Utilities' proposal, WEPCO would earn grossed up weighted cost of capital returns and, even worse, would earn those returns twice, once on the increase in rate base due to the reduction in repair allowance ADIT, and then again on the regulatory asset, which it plans to include in rate base starting in the 2020 test year.

Fundamentally, the WEC Utilities' proposal harms customers because they will have to repay $345.9 million in unnecessary and inappropriate deferrals, regardless of whether the deferrals are to existing escrow accounts or regulatory assets. The proposal further compounds the harm to customers by adding two layers of carrying costs to the deferrals themselves.

The first layer of carrying costs occurs because the rapid amortization of the repair allowance ADIT reduces ADIT subtracted from WEPCO's rate base. The carrying cost on the increase in rate base is WEPCO's grossed-up rate of return. The carrying costs at the grossed-up rate of return add another $919.9 million ($370.4 million for the transmission deferral and $549.4 million for the SSR deferral) to the $345.9 million in inappropriate deferrals that also must be recovered from customers over the proposed 50-year amortization period. This result is even worse than if the deferrals had been booked to the Transmission and SSR escrow accounts, where the Transmission escrow account would earn a short-debt only rate of return, or $73.3 million, and the SSR escrow account would earn no rate of return, or $0, over the same

[9] See Staff Memo. p. 13-15.

50-year amortization period. In other words, the WEC Utilities' proposal adds $846.5 million in carrying costs that must be recovered from customers compared to booking the deferrals to the existing Transmission and SSR escrow accounts.

The WEC Utilities additionally propose to include the new regulatory asset in rate base starting in 2020. *See* 3-CUB-Inter-8 (PSC Ref #305262). The carrying cost on the increase in rate base also is WEPCO's grossed-up rate of return. The new regulatory asset is equivalent to the reduction in repair allowance ADIT, adding another $960.8 million in carrying costs to customers over the 50 years. In other words, WEC proposes to include the deferrals from the rapid amortization of the repair allowance ADIT in rate base twice.

To put this in perspective, the total cost of the WEC Utilities' tax proposal is $2.2 billion, including both the principal and the return on the proposed $345.9 million in rapid amortization of repair allowance ADIT. The total cost of the WEC proposal is $1.8 billion more than if the increases in transmission expense and alleged lost SSR revenues were recorded in the existing escrow accounts and earned the returns recommended in the Staff Memorandum.

e. The Return on the New Regulatory Asset Is Not Justified Under Any Circumstances

Even if the WEC Utilities' proposal is adopted, WEPCO is not entitled to any return on this new regulatory asset. The proposed new regulatory asset is the result of a reduction to the repair allowance ADIT due to the temporary flow-through of this tax savings. WEPCO already obtains a rate of return on this reduction through an increase in rate base. Any return on the regulatory asset would double-count the return already obtained through the increase in rate base.

2. Staff proposal: Require that carrying costs on the "old" transmission escrow be calculated using the short-term debt rate rather than the weighted average cost of capital

a. Summary of CUB and WIEG Response to Staff Proposal.

CUB and WIEG strongly agree with Staff's recommendation that carrying costs on the "old" transmission escrow be calculated using the short-term debt rate rather than the weighted average cost of capital. This modification will allow the carrying costs on the deferrals to be calculated at 2.2%, the short-term debt rate, rather than at 11.11%, WEC's proposed grossed-up weighted average cost of capital for WEPCO, as reflected in RR-1.

The Staff recommendation ensures that the carrying costs on the old Transmission escrow and on the new Transmission escrow are calculated at the same rate. This recommendation also ensures that the carrying costs are calculated based on the actual deferrals reflected in the escrow accounts instead of on projected estimates of the deferrals in 2018 and 2019 recovered through revenues in those years. For example, under the Staff analysis, the WEPCO new Transmission escrow account will decline in 2018 and then increase in 2019 so that the balance at December 31, 2019 will be the same as at December 31, 2017. The carrying costs under the Staff recommendation will reflect the actual changes in the new Transmission escrow balances each month.

Finally, this modification ensures that the carrying costs are consistent with the requirements of Generally Accepted Accounting Principles ("GAAP"), which limit deferral of carrying costs to a debt-only rate of return for book accounting and financial reporting purposes. *See* Accounting Standards Codification (ASC) 980-340-25-5.

CUB and WIEG recommend that the Commission correct and reduce WEPCO's old Transmission and SSR escrow accounts and WG's West Central Natural Gas Lateral (WCNGL) escrow account as of December 31, 2017. These reductions will have no effect on the WEPCO and WG revenue requirement in 2018 or 2019, assuming that there is no amortization of these escrow accounts and no return on the accounts included in the revenue requirements for those years, based on the Staff recommendation to defer the amortization of these accounts until the next comprehensive base rate case and to defer the return into the escrow accounts starting January 1, 2018. However, the reductions in these escrow accounts will be reflected in reduced revenue requirements in future test years when the escrow amounts are amortized and recovered from customers.

b. WEPCO's old Transmission escrow account should be reduced to reflect the timely recognition of ATC refunds due to WEPCO.

In addition to the reductions recommended by Staff, CUB and WIEG recommend that the Commission reduce the WEPCO old Transmission escrow account balance to reflect the additional earnings available for sharing if the ATC refunds to WEPCO had been timely recognized and recorded in earnings in 2016 and 2017.[10] ATC delayed the refunds to WEPCO and WEPCO delayed recording the earnings effects until it actually received the refunds. *See* Response to 7-CUB/Inter-1 and Attachments (PSC REF#: 327216). The WEC Utilities were unable to explain why the ATC refunds were delayed in response to CUB discovery. *Id.*

The FERC ordered refunds in Docket No. EL14-12 in September 2016 for the period covering November 12, 2013 through February 11, 2015. *See* Response to MAR-4-2 WEPCO (PSC REF#: 304185). However, WEPCO did not record the receivable from ATC or the reduction in transmission expense until January 2017. *See* Response to 7-CUB-Inter-1 (PSC REF#: 327216, including PSC REF#: 304185 and confidential attachments referenced therein). Consequently, WEPCO earnings were understated in 2016 for purposes of the earnings sharing mechanism and the reduction to the old Transmission account.

The WEPCO earnings were understated by $14.2 million (Wisconsin jurisdiction) in 2016, which means that the old Transmission account was overstated by $7.1 million, or 50% of the understated earnings in that year.

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[10] WEPCO normally recognizes and records all increases and reductions to the escrow accounts based on accrual accounting pursuant Generally Accepted Accounting Principles. It does not recognize and record refunds or other transactions on a cash accounting basis. Yet it did not recognize and record the ATC refund on an accrual basis in 2016 once the FERC issued the refund order. Instead, WEPCO delayed it until 2017 when it actually received the refund, which is not consistent with accrual accounting or the other increases and reductions to the escrow accounts. Thus, earnings in 2016 were understated and the 50% allocation of earnings over the authorized return on equity were not recognized and recorded as a reduction to the Transmission escrow until 2017.

Similar adjustments to WEPCO's earnings under the earnings sharing mechanism may be necessary for 2017 for a second refund ordered by FERC in Docket No. EL15-45, which covers the period February 12, 2015 through May 11, 2016. (*See* PSC REF#: 304185 and confidential attachments.) However, the effect on the old Transmission escrow account cannot yet be calculated. The Commission should reserve this issue for further review in the next comprehensive base rate case proceeding.

CUB and WIEG also recommend that the Commission reduce the WEPCO old Transmission escrow account balance for lost earnings due to carrying charges on delayed ATC refund payments from the first FERC-ordered ROE reduction in 2016 and from the second FERC-ordered ROE reduction in 2017, if there is a similar delay. The WEPCO earnings were understated by $238,000 in 2016 due to the additional carrying costs that were incurred for the final three months of 2016, which means that the old Transmission account was overstated by another $119,000, or 50% of the carrying charges on the understated earnings in that year.

c. WEPCO's old Transmission escrow account should be reduced to account for WEPCO's delay in implementing additional repair allowance deductions.

CUB and WIEG recommend that the Commission further reduce the WEPCO old Transmission escrow account balance for the lost earnings in 2016 that were not available for sharing due to WEPCO's imprudent and unreasonable delay in implementing the additional repair allowance deductions pursuant to Rev. Proc. 2011-43 of the Internal Revenue Code. This delay understated the repair allowance ADIT in 2016, which in turn overstated rate base and common equity, and thus, understated earnings for the earnings sharing calculation for that year. (*See* PSC REF#: 305431 and confidential attachments.)

WEPCO did not adopt Rev. Proc. 2011-43 until 2016 (for the 2015 federal tax return) and did not record the additional repair allowance ADIT until November 2016, when it filed the 2015 federal income tax return. In contrast to the WEPCO delay, WPSC adopted Rev. Proc. 2011-43 in 2011, the same year it was issued. (*See* PSC REF#: 305431 and confidential attachments). Both WEPCO and WPSC adopted Rev. Proc. 2013-24 in 2014. *Id.* This delay meant that the catch-up adjustment through December 31, 2015 was not recorded on WEPCO's accounting books until November 2016, which understated the ADIT for the first 10 months of 2016 by $87.2 million. In addition, this delay meant that WEPCO did not record the additional repair allowance for January through October 2016 until November 2016, which understated the ADIT for the first 10 months of 2016 by another $21.8 million. (*Id.,* see also PSC REF#: 305429 and Confidential Attachment A).

The delay in adopting Rev. Proc. 2011-43 until November 2016 caused a reduction in WEPCO total Company earnings of $5 million (Wisconsin jurisdiction) in 2016. $2.5 million, or 50% of those earnings, should have been shared with WEPCO's customers pursuant to the earnings sharing mechanism and used to reduce the old Transmission escrow account balance.

Consequently, the old Transmission escrow account balance should be reduced by $2.5 million. The implementation of Rev. Proc. 2011-43 was within WEPCO's control and its failure to timely implement the new regulation was imprudent and unreasonable. WEPCO's customers should not be penalized for WEPCO's imprudence through an excessive old Transmission escrow balance and the increased rates in a future test year in a future rate proceeding to amortize the excessive escrow balance.

The calculations of the effects of these two issues on the Transmission escrow account are provided in Exhibit E.

3. Staff proposal: Require that WEPCO and WPSC recognize all current transmission costs in the year they are incurred, thereby stopping the growth of the "new" transmission escrow

Staff's proposal consists of incorporating future growth in transmission costs in present rates while sustaining a rate freeze for two years. In other words, present base rates are sufficient to recover projected 2018 and 2019 Transmission costs without any deferrals. The present rates incorporate an increase of $81 million for both 2018 and 2019 or a 3% increase in rates. Staff calculation is as follows:

Table 2: Transmission Costs in Staff's Rate Freeze Proposal – WEPCO Wisconsin Jurisdiction[11]

	$ (000s)
ATC/MISO Charges in Existing Rates	$250,739
Increase in 2018	$48,077
Increase in 2019	$113,935
Levelized Average increase	$81,006

As noted above, WEPCO recovers $250.7 million in current rates, as authorized in docket 05-UR-106. Consistent with the Commission's order in that case and at WEPCO's request, the increases in transmission costs over this amount are being

[11] Source: Response to MK 1-9 (PSC REF#: 301577) and MK 4-5 (PSC REF#:302821).

escrowed. The Commission also ordered that the carrying costs are to be based on the short-term debt rate and accrued in the balance.

Instead of deferring increases in transmission costs or WEPCO's discretionary tax election option, Staff's approach of recognizing transmission costs when incurred is an effective way of managing the costs while sustaining a rate freeze for two years. CUB and WIEG support this approach, provided Staff's rate freeze proposal with adjustments and conditions is accepted.

4. Staff proposal: Accrue carrying costs into the transmission escrow balance so that carrying costs may be recovered in the same manner as the balance

CUB and WIEG recommend that the Commission adopt the Staff proposal to accrue carrying costs into the old and new Transmission escrow accounts rather than providing a current return in revenues during 2018 and 2019. As noted previously, this proposal ensures that carrying costs are calculated only on the actual escrow account balances and that recovery of the carrying costs is consistent with recovery of the actual transmission expense deferred into the escrow account as determined in the next comprehensive base rate proceeding. The Staff proposal is equitable to WEPCO and its customers and eliminates the guesswork required to include estimated carrying charges on estimated escrow accounts balances in the 2018 and 2019 revenues. It ensures that WEPCO recovers the entirety of its carrying costs and that customers pay no more and no less than those carrying costs.

5. Staff proposal: Discontinue additional deferrals into the escrow related to the PIPP SSR payments, address recoverability and/or amortization of the balance in the next full rate case, and do not allow recovery of annual carrying costs on the balance during any rate freeze period

Staff's proposal would result in (a) the elimination of future growth in the SSR escrow and (b) the discontinuation of the accrual of carrying charges during the rate freeze period. In support of this position, Staff explains that all jurisdictional costs and revenues are reflected in its 2018 forecasted revenue requirement for WEPCO. The forecasted revenue requirement does not include any SSR revenue, and Staff emphasize that WEPCO has an opportunity to earn a reasonable return without consideration of these revenues. Further, the SSR escrow may be costing ratepayers without any corresponding benefit. Staff also notes the validity of disallowing recovery of annual carrying costs on the SSR balance during any rate freeze period, where recoverability of the SSR escrow may have been addressed in a full rate case had one been filed. Staff's recommendation includes addressing the recoverability of the existing SSR escrow balance in the next rate case proceeding. Excluding the Mines revenue, the SSR escrow balance will be $298.8 million by December 31, 2017. Staff used a two-year amortization of the Mines revenue and included a levelized amount of $42 million in the revenue requirement adjustments for 2018 and 2019.

a. The existing PIPP escrow balance should be eliminated.

CUB and WIEG appreciate Staff's efforts in recommending this condition and agree that future growth in the SSR balance is unnecessary and not justifiable. However, WIEG and CUB disagree that the recoverability of the existing SSR balance may be addressed in a future rate proceeding. It is neither clear nor certain as to when WEPCO may file a base rate case. There is strong evidence and justification to eliminate the entire existing PIPP escrow balance in this proceeding, because this balance represents a transaction cost that the WEC Utilities incurred during efforts to obtain regulatory approval in Michigan and before the FERC for its acquisition of Integrys (the "Merger"). The costs cannot be recovered from ratepayers because this Commission's approval of the Merger expressly provided that WEC Utilities' transaction costs are the responsibility of shareholders, not ratepayers. Excluding Mine revenue, the escrow balance will be $298.8 million by the end of 2017.

Exhibit D to these Comments is Ms. Kavita Maini's Affidavit and Exhibit in which she provides the chronology of events that led to the creation, and soon thereafter elimination, of the PIPP SSR status. It is clear that the SSR escrow balance exists only because the WEC Utilities/WEPCO voluntarily agreed to end PIPP's SSR designation (and, with that, most all expected SSR revenue payments as well) in exchange for which the State of Michigan, the Mines, and others withdrew their opposition to the Merger. The settlement the WEC Utilities reached with the Mines, the Michigan Attorney General, and the Michigan Governor's office ended their challenge to the merger proceeding in Michigan and before FERC. Consequently, because terminating the SSR status was a direct result of consummating the merger in Michigan and at FERC, which in turn resulted in the compounding SSR escrow balance in Wisconsin, the entire escrow balance is a transaction cost as defined in the Commission's Final Decision in the merger docket and not eligible for recovery.

Specifically, the Commission's Final Decision states as follows:

> Due to the timing and changing nature of the Settlement Agreement in Michigan, there is uncertainty as to whether the commitments made by the applicant to obtain approval of the acquisition in Michigan could affect ratepayers in Wisconsin. **Therefore, the Commission finds it reasonable that any costs borne by WEC Energy, WEPCO, Integrys Energy, or WPSC to obtain agreement from any party for the transaction's approval in Michigan be considered transaction costs**. As noted, transaction costs are those costs that are incurred in connection with the execution of the acquisition approval, and are not eligible for recovery from Wisconsin ratepayers. Further, it is reasonable to require that if such costs are incurred by WEC Energy or Integrys Energy, it is reasonable that they remain at the holding company level and not be allocated to the utilities.

In re Application of Wisconsin Energy Corporation for Approval to Acquire the Outstanding Common Stock of Integrys Energy Group, Inc., Docket 9400-YO-100, Final Decision at 31 (emphasis added) (PSC REF. #: 236761).

The chronology detailed in Exhibit D shows the events that occurred immediately after the Commission finalized its decision to create the SSR deferral. That decision came in December 2014; by January 30, 2015, the Mines and other key Michigan stakeholders, including the Governor's office and Attorney General, had an agreement for merger settlement in the Michigan merger proceeding and dropped their protest at FERC. In exchange, WEPCO worked with MISO to eliminate PIPP's SSR status. The SSR payments therefore stopped as the end result of those proceedings. The SSR was subsequently terminated in February, with a determination that the final SSR payments would be January 31, 2015. Thus, instead of $90.7 million in SSR revenue payments, the Wisconsin jurisdiction received $7.56 million.

For Michigan, the agreement resolved a variety of concerns over the future of a key stakeholder, a mining company that took advantage of Michigan's deregulation law to seek more favorable rates from an alternative energy supplier. Ultimately the mining company returned to the WEPCO fold on much better terms than it was facing in 2014-15. The deal also set the stage for creation of a Michigan-only utility in the Upper Peninsula, as well as a commitment to build new generation and retire PIPP.

The SSR payments provide no tangible benefit to keep the lights on for residential, small business, and industrial customers in Wisconsin. The compounding $90.7 million deferral results from WEPCO's own actions to consummate the merger deal in Michigan (and to obtain FERC approval). This is a transaction cost and not eligible for recovery in Wisconsin. Wisconsin customers must not be held responsible for costs that resulted from WEPCO's actions.

b. The Mines Revenue Should Be Increased to Reflect Revenues Without the Special Contract.

The Mines revenue is currently recorded in the SSR escrow balance. Since the Mines returned to WEPCO service after the 05-UR-107 base rate case proceeding, the related revenues were not included in WEPCO's 2015 calculation of Wisconsin retail rates. The Commission therefore allowed WEPCO to defer the revenues received from the Mines. As noted above, Staff's proposal decouples the Mines revenue from the SSR related costs. Staff applied a two-year amortization balance of the Mines revenue of $84 million in the revenue requirement adjustments ($42 million each year for 2018 and 2019).

The Mines returned to WEPCO as part of the Michigan Settlement. Aside from eliminating the SSR costs that were plaguing Michigan customers at that time (with the highest SSR related costs faced by the Mines), the Mines were also successful in negotiating a special contract with WEPCO. The Michigan Settlement contained a specific condition that "No other Michigan customers' retail rates will be increased as a result of the special contracts entered into between Wisconsin Electric and the Mines." (*See* Michigan Public Service Commission, Case No. U-17682, Order Approving Amended and Restated Settlement Agreement, Document No. 0215.) Consequently, Michigan customers are not being charged to make WEPCO whole due to this discount.

In Wisconsin, the Mines revenue is understated because WEPCO recorded the Mines revenue after adjusting for discounts under the special contract arrangement with the Mines. In response to 10-CUB/Inter-1b, WEPCO states that

> The Mines special contract went into effect April 24, 2015. The revenue provided after this date includes the discounts provided as a result of the special contract. The billing determinants and revenue projections under the CpLC tariff have not been developed, and are, therefore, not available.

(PSC REF#: 328436.) Further, WEPCO states that "the Mines revenues being escrowed represent revenues based on the rates the mines are currently paying." Response to 10-CUB/Inter-2 (PSC REF#:328437). Thus, by recording the Mines revenue after adjusting for the discounts, the Wisconsin customers are being asked to foot the bill for the Mines discount. In contrast, Michigan customers pay $0. This is neither fair nor reasonable to Wisconsin customers. WEPCO's shareholders need to bear these costs.

To correct this discrepancy, WEPCO needs to return to Wisconsin the full revenues *without* adjusting for the discount. In their reply comments, the Applicants should provide a reconciliation reflecting the total revenues. Since Staff's proposal along with the synergy savings results in no increase for 2018 and 2019 and the WEC Utilities will earn a reasonable return in 2018 and 2019 under present revenues, the value of the discount would result in a rate decrease. Thus, WIEG and CUB recommend that the monetary value of the discount be returned to customers via a bill credit.

6. Staff proposal: Discontinue WPSC's Real Time Market Pricing (RTMP) deferral

As part of the Settlement, the WEC Utilities proposed that WPSC be allowed to extend the deferral and escrow treatment of the RTMP deferral balance, projected at \$12.8 million by 2018. In WPSC's last rate case (6690-UR-124), the Commission approved a deferral of \$2.5 million and did not authorize carrying costs on WPSC's RTMP margin revenue deferral. The recoverability of this amount will be addressed in a future rate case proceeding.

CUB and WIEG support Staff's recommendation that the Commission deny the extension of WPSC RTMP deferrals in 2018 and 2019. Staff has incorporated RTMP-related sales in its test year forecast. Consequently, the deferrals are not necessary, as the Staff Memorandum shows present base rates are sufficient to recover revenue requirements.

7. Staff proposal: Discontinue the Section 199 escrow, address recoverability and/or amortization of the balance in the next full rate case, and do not allow recovery of annual carrying costs on the balance during any rate freeze period

CUB and WIEG recommend that the Commission adopt the Staff recommendation to reject the extension of WEPCO Section 199 deferrals in 2018 and

2019, freeze the Section 199 deferral balance as of December 31, 2017, and determine recoverability and amortization, if any, in the next comprehensive base rate proceeding.

These recommendations are appropriate for several reasons. First, the WEPCO revenue requirement reflected in the Staff Memorandum and shown on Appendix A reflects income tax expense in 2018 and 2019, assuming that there will be *no* Section 199 deductions in those two years. WEPCO's present revenues are sufficient to recover this income tax expense. Thus, there is no unrecovered increase in income tax expense if there are no Section 199 deductions in those two years.

Second, this recommendation will shift the risk of the Section 199 deduction to WEPCO so that it is consistent with the risk retained by the other WEC Utilities. If WEPCO actually has Section 199 deductions in 2018 and 2019, then it will retain the savings in income tax expense, except to the extent the savings are shared in part with customers through the earnings sharing mechanism.

Third, this Staff recommendation appropriately removes $10.6 million in discretionary and unnecessary amortization expense of Section 199 escrow account balance at December 31, 2017, supporting the conclusion that no base rate increase is necessary and that no additional deferrals are necessary to the Transmission and SSR escrow accounts and that no rapid amortization of the repair allowance ADIT is necessary as an alternative.

8. Staff proposal: Direct WEPCO, WG and WPSC to record the annual amortization expense amounts identified in Appendix B beginning in 2018

CUB and WIEG agree with the Staff recommendations for WEPCO, WG, and WPSC amortization expenses, with only one exception. The annual amortization expense amounts are consistent with the various recommendations in the Staff Memorandum and the revenue deficiencies that are shown in Appendix A, with which CUB and WIEG generally agree.

The significant WEPCO amortizations with which CUB and WIEG agree are: a) no additional deferrals to or amortizations of the Transmission and SSR escrow accounts and no rapid amortization of the WEPCO repair allowance ADIT in lieu of additional deferrals to the Transmission and SSR escrow accounts; b) no additional deferrals to the Section 199 escrow account; and c) the 2-year amortization of the mines margin escrow account.

CUB and WIEG disagree with the Staff recommendation as follows:

- First, regarding the existing PIPP SSR balance – as recommended in Section (5a), there should be none;

- Second, "old" transmission escrow balance should be reduced by $9.77 million as noted earlier in 2b;

- Third, regarding WEPCO amortization of the PTF escrow account, CUB and WIEG recommend that there be no net amortization of the PTF escrow account in 2018 and 2019. This recommendation will result in a correction of $12.889 million and should be returned to customers via a bill credit in addition to the value of the Mines discount discussed earlier.

WEC projects that WEPCO will incur PTF expense of $398.783 million in 2018 and $404.875 million in 2019. The Staff recommends amortization of the PTF escrow of $411.672 million in each of those years, which reduces the WEPCO PTF escrow account from $63.293 million at December 31, 2017 to $43.607 million at December 31, 2019. The Staff recommendation results in a net amortization in excess of actual PTF expenses of $12.889 million in 2018 and $6.797 million in 2019. However, the amortization expense does not need to be increased in 2018 and 2019 if the Commission accepts in order to freeze WEPCO's base rates for the two years. Such an increase in amortization expense unnecessarily increases the revenue requirement.

Since Staff's proposal results in no increase for 2018 and 2019 assuming synergy savings (as noted in Appendix A) and the WEC Utilities will earn a reasonable return in 2018 and 2019 under present revenues, removing the PTF escrow account amortization results in excess revenues, indicating that a rate reduction is appropriate. Thus, CUB and WIEG recommend that the PTF escrow related adjustments of $12.889 million in 2018 and $6.797 million in 2019 be returned to customers via a bill credit along with the monetary value of the Mines discount.

9. Staff proposal: Extend the deferral of depreciation and return on cost overruns of WPSC's ReACT project through 2019, such that recoverability can be determined in the next full rate case and do not recover carrying costs on the balance during the rate freeze period.

CUB and WIEG recommend that the Commission adopt the Staff recommendation regarding the deferral of depreciation and return of cost overruns on WPSC's ReACT project through 2019. The Commission has not yet determined the prudence and recoverability of the WPSC ReACT project cost overruns and should not authorize amortization of the depreciation and return on the cost overruns until it has done so. The Commission should defer its review and decision on the prudence and recoverability of these costs until the next comprehensive base rate case proceeding.

10. Staff proposal: Accept the WEC Utilities' proposal to establish an earnings sharing mechanism for WPSC for 2018 and 2019 similar to that in place for WEPCO and WG, and extend the WEPCO and WG earnings sharing mechanism through 2019

The existing earnings sharing mechanism was authorized by the Commission in the merger docket. It consists of 50%-50% sharing between WEPCO/WG and customers for the first 50 basis point above the authorized ROEs. Over earnings beyond the 50 basis points are to flow 100% to customers. The yardstick for the ROE earning sharing mechanism is the one used for earnings test under fuel reconciliations under Wis. Admin. Code ch. PSC 116.

CUB and WIEG support the continued use of the earnings sharing mechanism and extending this mechanism to include WPSC. However, we recommend two modifications: *first*, setting the ROE threshold for earnings sharing at 9.8% instead of the currently authorized rate of return, and *second*, using the regulatory basis instead of the fuel rules basis to measure whether earnings are excessive.

As noted above, current authorized ROEs for the WEC Utilities are excessive and market conditions have changed significantly since these rates of return were last established. An ROE of 9.8% is reasonable under current market conditions and consistent with the Commission's decision in the MGE case. CUB and WIEG fully support a change from the existing authorized ROE to reflect what is supportable under current market conditions. The earnings sharing mechanism should use 9.8% for WEPCO, WG and WPSC as the threshold for the sharing of earnings instead of the currently authorized returns.

In addition to an ROE threshold of 9.8%, CUB and WIEG also recommend that the ROE threshold in determining if earnings are excessive should be measured on a regulatory basis rather than on fuel rules basis for all WEC Utilities. Measuring excessiveness of earnings on a regulatory basis was initially authorized for Wisconsin Power & Light in 6680-UR-118 in 2012, subsequently extended in 6680-UR-119 and 6680-UR-120, and continues today. Wisconsin Power & Light agreed to measure its ROE on a regulatory basis as part of a settlement. The major difference between measuring earnings at the regulatory versus fuel basis is that the realized earnings are measured before recognizing expenses that are typically disallowed by the Commission, such as incentive compensation and earnings on investment in the American Transmission Company, LLC. For example, for 2015, the ROE under fuel rules for WEPCO was 10.64%. If adjusted for actual 2015 disallowed costs such as incentive compensation, WEPCO's adjusted return would be 11.15% on a regulatory basis, a difference of 51 basis points. That is, if the fuel rules ROE threshold were used, as currently proposed, customers would share the over earnings associated with just 44 basis points (10.64% - 10.20%). However, if the regulatory basis was used, customers and WEPCO would equally share the earnings associated with WEPCO for the first 50 basis points up to 10.70% and all earnings above this threshold would flow 100% to customers.

Measuring overearnings based on a fuel rules basis results in ratepayers indirectly incurring costs that are routinely excluded from the company's revenue requirement. These costs are incurred indirectly to the extent that they result, one for one, in fewer earnings sharing dollars allocated to ratepayers. In other words, by not sharing on a regulatory basis, the company will recover indirectly from customers dollars that the Commission does not permit them to recover directly in revenue requirement. Compared to the fuel rules basis, using the regulatory basis is a more effective means to ensure that customers are not paying excessive rates while affording shareholders the opportunity to earn a reasonable return on their investment.

Thus, CUB and WIEG recommend that the Commission order the following modifications of the earnings sharing mechanism as a condition of approving the proposed settlement: (a) extend the earnings sharing mechanism to WPSC, (b) extend the mechanism for WEPCO, WG and WPSC through 2019; (c) use an ROE threshold of 9.8% instead of current authorized returns, and (d) apply the regulatory basis in determining if earnings are excessive.

III. CONCLUSION

The conditions and modifications presented above and summarized in Table 1 will ensure that the WEC Utilities' proposed settlement is just and reasonable to all ratepayers and that customers are protected from the impact of ongoing deferrals and escrows. With modifications, CUB and WIEG endorse the proposed settlement as a fair compromise that incorporates staff adjustments to support a rate freeze that is just and reasonable and provides a reasonable rate of return to the WEC Utilities. *See* Table 1, Number 0.

To assure a settlement that keeps rates unchanged and also addresses looming deferrals and escrow balances, CUB and WIEG suggest these conditions (staff conditions with **CUB/WIEG additions in bold**):

1. Reject the WEC Utilities' proposal to offset certain deferred costs with accelerated tax benefits.

2.a. Require that carrying costs on the "old" transmission escrow, be calculated using the short-term debt rate, rather than the weighted average cost of capital.

2.b. Reduce existing transmission escrow by $9.77 million to account for delay in recognizing ATC ROE refund and ADIT repair allowance.

3. Require that WEPCO and WPSC recognize all current transmission costs in the year they are incurred, thereby stopping the growth of the "new" transmission escrow.

4. Accrue carrying costs into the transmission escrow balance so that carrying costs may be recovered in the same manner as the balance.

5.a. Disallow existing SSR escrow balance and any future deferrals.

5.b. Return value of Mines discount as a refund to customers.

6. Discontinue WPSC's Real Time Market Pricing (RTMP) deferral.

7. Discontinue the Section 199 escrow, address recoverability and/or amortization of the balance in the next full rate case, and do not allow recovery of annual carrying costs on the balance during any rate freeze period.

8.a. Direct WEPCO, WG and WPSC to record the annual amortization expense amounts identified in Appendix B beginning in 2018, e**xcept that SSR Escrow balance shall be $0 (condition #5a) and "old" escrow balance shall be reduced by $9.77 million (condition #2b).**

8.b. Require a refund to WEPCO customers of $19.686 million due to no net amortization of the PTF escrow account in 2018 and 2019.

9. Extend the deferral of depreciation and return on cost overruns of WPSC's ReACT project through 2019, such that recoverability can be determined in the next full rate case and do not recover carrying costs on the balance during the rate freeze period**.**

10. Accept the WEC Utilities' proposal to establish an earnings sharing mechanism for WPSC for 2018 and 2019; for WPSC, WEPCO and WG, **modify ROE trigger to 9.8% and earnings test on a regulatory basis instead of fuel basis; and** extend the earnings sharing mechanism through 2019.

Table 1, Numbers 1-10.

If the Commission rejects the WEC Utilities' settlement proposal, or if the WEC Utilities are unwilling or unable to carry out the settlement with the conditions and modifications ordered by the Commission, CUB and WIEG respectfully request that the Commission order the WEC Utilities to file an application for a 2018 base rate case as soon as practicable. The status quo would allow the WEPCO transmission and SSR deferrals to continue unabated, exposing ratepayers to unreasonable and unnecessary costs in future years. If the proposed settlement cannot be implemented with reasonable conditions and modifications as proposed herein, a full base rate proceeding is the only way to ensure that ratepayers are paying only for the costs necessary to provide them with reasonable and adequate service.

Dated this 2nd day of August, 2017.

Respectfully submitted,

PINES BACH LLP

By: /s/ *Christa O. Westerberg*

Susan M. Crawford, SBN 1030716
Christa O. Westerberg, SBN 1040530
Attorneys for Citizens Utility Board

122 W. Washington Ave.
Suite 900
Madison, WI 53703
Tel. 608-251-0101
scrawford@pinesbach.com
cwesterberg@pinesbach.com

HEINZEN LAW, SC

By: /s/ *Steven A. Heinzen*

Steven A. Heinzen, SBN 1032278
Attorney for Wisconsin Industrial Energy Group

2 East Mifflin, Suite 402
Madison, WI 53703
Tel. 608-467-2033
steve.heinzen@heinzenlaw.com

2016/2017 Industrial Electric Rates for
Investor Owned Utilities
50,000 kW Demand and 32,500,000 kWh Consumption

Line	Utility	State	2016/2017 ¢/kWh*
1	Upper Peninsula Power Company	Michigan	14.60
2	We Energies (formerly Wisconsin Electric)	Michigan	9.01
3	Madison Gas & Electric Company	Wisconsin	8.80
4	Northern States Power Company	Michigan	8.80
5	We Energies (formerly Wisconsin Electric)	Wisconsin	8.26
6	Southern Indiana Gas & Electric Company	Indiana	7.60
7	Kansas City Power & Light Company	Kansas	7.59
8	Montana-Dakota Utilities Company	North Dakota	7.49
9	Indianapolis Power & Light Company	Indiana	7.49
10	Dayton Power & Light Company	Ohio	7.44
11	Otter Tail Power Company	Minnesota	7.40
12	Northern States Power Company	Minnesota	7.36
13	Northern States Power Company	South Dakota	7.36
14	Minnesota Power Company	Minnesota	7.28
15	Kansas City Power & Light Company	Missouri	7.16
16	Northern States Power Company	North Dakota	6.92
17	WP&L	Wisconsin	6.87
18	Northern Indiana Public Service Company	Indiana	6.81
19	Kansas City Power & Light - L&P	Missouri	6.74
20	Northern States Power Company	Wisconsin	6.68
21	AEP (Ohio Power Rate Area)	Ohio	6.63
22	Montana-Dakota Utilities Company	South Dakota	6.58
23	Wisconsin Public Service Corporation	Michigan	6.49
24	Duke Energy Indiana	Indiana	6.46
25	Otter Tail Power Company	North Dakota	6.40
26	Westar Energy-KGE	Kansas	6.39
27	Westar Energy-KPL	Kansas	6.39
28	Wisconsin Public Service Corporation	Wisconsin	6.28
29	AEP (Indiana Michigan Power)	Michigan	6.09
30	Consumers Energy	Michigan	6.08
31	DTE Electric Company	Michigan	6.05
32	Duke Energy Ohio	Ohio	6.02
33	AEP (Columbus Southern Power Rate Area)	Ohio	5.92
34	Otter Tail Power Company	South Dakota	5.86
35	Toledo Edison Company	Ohio	5.85
36	AEP (Indiana Michigan Power)	Indiana	5.84
37	Interstate Power & Light	Iowa	5.84
38	Kansas City Power & Light - MPS	Missouri	5.81
39	Northwestern Energy	South Dakota	5.81
40	Ohio Edison Company	Ohio	5.69
41	Cleveland Electric Illuminating Company	Ohio	5.63
42	AmerenUE	Missouri	5.52
43	Black Hills Power	South Dakota	5.35
44	MidAmerican Energy	Illinois	4.85
45	MidAmerican Energy	Iowa	4.55
46	MidAmerican Energy	South Dakota	2.74

* Weighting = 4 months 2016 summer rate and 8 months 2017 winter rate

Note: This report was prepared by Brubaker & Associates, Inc.
using Edison Electric Institute Typical Bills and Average Rates Reports.

Exhibit A

Industrial Electric Rates (¢/kWh) for Investor Owned Utilities

50,000 kW Demand and 32,500,000 kWh Consumption

Line	Utility	State	2016/2017 [5]	2016	2015	2014	2013	2012	2011	2010	2009
1	MidAmerican Energy	Illinois	4.85	4.83	4.64	4.59	3.98	3.78	3.53	3.48	3.44
2	**Average for Illinois[1]**		**4.85**	**4.83**	**4.64**	**4.59**	**3.98**	**3.78**	**3.53**	**3.48**	**3.44**
3	AEP (Indiana Michigan Power)	Indiana	5.84	5.59	5.51	5.24	4.85	4.70	4.68	4.77	4.46
4	Duke Energy Indiana	Indiana	6.46	6.00	6.51	7.08	6.42	5.91	5.65	5.13	5.23
5	Indianapolis Power & Light Company	Indiana	7.49	6.91	6.63	6.51	6.30	6.09	5.66	5.11	5.20
6	Northern Indiana Public Service Company	Indiana	6.81	6.38	6.92	6.65	6.45	5.67	7.38	6.70	7.07
7	Southern Indiana Gas & Electric Company	Indiana	7.60	7.42	7.60	7.42	7.27	7.75	7.66	7.25	6.68
8	**Average for Indiana**		**6.71**	**6.30**	**6.54**	**6.54**	**6.18**	**5.80**	**6.04**	**5.58**	**5.64**
9	Interstate Power & Light	Iowa	5.84	5.56	5.56	5.39	5.42	4.52	5.65	N/A	5.50
10	MidAmerican Energy	Iowa	4.55	4.48	4.29	4.06	4.06	3.75	3.70	3.67	3.63
11	**Average for Iowa**		**5.04**	**4.89**	**4.80**	**4.61**	**4.64**	**4.08**	**4.55**	**3.67**	**4.50**
12	Empire District Electric Company	Kansas	N/A	N/A	6.28	6.07	5.78	6.14	5.73	5.61	5.19
13	Kansas City Power & Light Company	Kansas	7.59	7.61	7.02	6.79	7.04	6.56	5.39	5.35	4.89
14	Westar Energy-KGE	Kansas	6.39	6.51	6.45	6.27	6.75	5.52	5.27	4.78	4.12
15	Westar Energy-KPL	Kansas	6.39	6.51	6.62	6.43	7.05	5.84	5.68	5.54	4.93
16	**Average for Kansas**		**6.45**	**6.56**	**6.54**	**6.35**	**6.86**	**5.69**	**5.41**	**5.06**	**4.43**
17	AEP (Indiana Michigan Power)	Michigan	6.09	5.99	5.96	5.63	6.06	5.67	4.86	4.43	3.92
18	Consumers Energy	Michigan	6.08	5.88	7.57	7.09	6.90	7.07	7.27	6.63	6.89
19	DTE Electric Company	Michigan	6.05	5.64	6.31	6.90	7.37	7.35	6.44	6.03	6.25
20	Northern States Power Company	Michigan	8.80	8.54	8.58	8.74	7.36	7.21	6.83	6.67	7.07
21	Upper Peninsula Power Company	Michigan	14.60	11.07	9.23	9.48	8.79	8.92	8.92	9.48	8.81
22	We Energies (formerly Wisconsin Electric)	Michigan	9.01	8.97	8.89	8.70	9.20	8.94	8.81	6.74	6.05
23	Wisconsin Public Service Corporation	Michigan	6.49	6.27	6.50	6.28	6.60	6.66	6.39	6.22	6.73
24	**Average for Michigan**	Michigan	**6.43**	**6.12**	**6.92**	**6.99**	**7.15**	**7.20**	**6.82**	**6.30**	**6.47**
25	Interstate Power & Light	Minnesota	N/A	N/A	6.59	6.24	6.36	7.21	6.77	N/A	5.90
26	Minnesota Power Company	Minnesota	7.28	6.57	6.09	5.93	5.50	5.55	5.94	5.66	5.35
27	Northern States Power Company	Minnesota	7.36	7.48	7.27	7.58	7.35	6.76	6.61	6.46	5.94
28	Otter Tail Power Company	Minnesota	7.40	6.90	6.78	6.31	6.17	6.47	6.24	5.58	5.72
29	**Average for Minnesota**		**7.34**	**7.07**	**6.73**	**6.78**	**6.48**	**6.27**	**6.33**	**6.13**	**5.74**
30	AmerenUE	Missouri	5.52	5.79	5.69	5.47	5.16	4.81	4.74	4.08	3.74
31	Empire District Electric Company	Missouri	N/A	N/A	6.80	6.81	6.41	6.52	6.32	5.42	5.33
32	Kansas City Power & Light - L&P	Missouri	6.74	6.98	7.03	6.89	6.55	6.39	5.47	5.36	4.38
33	Kansas City Power & Light - MPS	Missouri	5.81	6.12	6.00	5.80	5.54	5.72	5.23	7.51	6.54
34	Kansas City Power & Light Company	Missouri	7.16	6.61	5.79	5.50	5.12	4.89	4.75	4.67	4.09
35	**Average for Missouri**		**5.96**	**6.00**	**5.87**	**5.65**	**5.33**	**5.06**	**4.91**	**4.55**	**4.08**
36	Montana-Dakota Utilities Company	North Dakota	7.49	6.73	6.81	6.68	6.18	6.29	6.24	5.55	5.64
37	Northern States Power Company	North Dakota	6.92	6.71	7.00	6.62	6.20	5.94	5.62	5.38	5.31
38	Otter Tail Power Company	North Dakota	6.40	6.25	6.17	6.17	5.76	6.26	5.58	5.54	5.48
39	**Average for North Dakota**		**7.02**	**6.56**	**6.59**	**6.47**	**6.02**	**6.22**	**5.90**	**5.51**	**5.52**
40	AEP (Columbus Southern Power Rate Area)	Ohio	5.92	5.67	6.77	6.12	5.70	5.02	5.28	4.87	4.60
41	AEP (Ohio Power Rate Area)	Ohio	6.63	6.17	7.17	6.65	6.26	5.15	4.54	4.17	3.98
42	Cleveland Electric Illuminating Company	Ohio	5.63	6.42	7.05	6.38	5.81	5.94	6.08	7.27	7.11
43	Dayton Power & Light Company	Ohio	7.44	8.00	7.53	7.46	6.85	6.90	6.51	5.67	4.91
44	Duke Energy Ohio	Ohio	6.02	6.05	5.89	5.96	5.82	6.53	7.23	7.88	6.42
45	Ohio Edison Company	Ohio	5.69	6.31	6.68	6.29	5.95	6.00	6.20	6.31	6.70
46	Toledo Edison Company	Ohio	5.85	6.48	6.82	6.39	5.78	5.87	5.95	6.09	7.55
47	**Average for Ohio**		**6.17**	**6.40**	**6.96**	**6.48**	**6.04**	**5.40**	**5.30**	**5.69**	**5.67**
48	Black Hills Power	South Dakota	5.35	5.12	6.17	6.15	5.78	5.74	5.65	5.19	4.79
49	MidAmerican Energy	South Dakota	2.74	3.23	3.72	3.67	3.70	3.36	3.83	3.72	3.71
50	Montana-Dakota Utilities Company	South Dakota	6.58	6.71	5.84	5.94	5.82	5.71	5.58	5.59	5.62
51	Northern States Power Company	South Dakota	7.36	7.68	7.80	7.24	7.24	6.19	5.63	5.79	5.32
52	Northwestern Energy	South Dakota	5.81	5.68	5.98	5.39	5.16	5.19	4.89	4.69	4.63
53	Otter Tail Power Company	South Dakota	5.86	6.01	5.93	5.41	5.11	5.08	5.00	5.53	5.21
54	**Average for South Dakota**		**5.93**	**6.03**	**6.28**	**5.89**	**5.70**	**5.37**	**5.16**	**5.17**	**4.90**
55	Madison Gas & Electric Company	Wisconsin	8.80	8.74	8.99	8.53	8.53	8.37	5.87	4.78	4.59
56	Northern States Power Company	Wisconsin	6.68	6.56	6.67	6.53	6.43	6.18	5.98	5.83	5.87
57	We Energies (formerly Wisconsin Electric)	Wisconsin	8.26	8.36	8.43	8.22	8.11	7.95	7.85	6.72	6.61
58	Wisconsin Public Service Corporation	Wisconsin	6.28	6.30	6.31	6.14	6.18	6.18	5.97	5.76	5.90
59	WP&L	Wisconsin	6.87	6.97	6.39	6.27	6.07	6.36	6.32	6.32	6.02
60	**Average for Wisconsin**		**7.29**	**7.36**	**7.28**	**7.11**	**7.03**	**7.00**	**6.85**	**6.29**	**6.22**
61	**Midwest Average[2]**		**6.49**	**6.31**	**6.47**	**6.38**					
62	**U.S. Average[3]**		**6.35** [3]	**6.31** [3]	**6.72** [4]	**6.56** [3]					

Note: Weighting = 4 Summer Months and 8 Winter Months

1) Excludes utilities with open access
2) Data not available for Nebraska
3) Data not available for Nebraska, District of Columbia, or Alaska
4) Data not available for Nebraska, Delaware, District of Columbia, or Alaska
5) Weighted 4 months 2016 summer and 8 months 2017 winter.

This report was prepared by Brubaker & Associates, Inc. using Edison Electric Institute Typical Bills and Average Rates Reports

Exhibit A

2016/2017 Residential Electric Rates for Investor Owned Utilities
1,000 kWh Consumption

Line	Utility	State	2016/2017 ¢/kWh*
1	Upper Peninsula Power Company	MI	22.25
2	DTE Electric Company	MI	16.09
3	Southern Indiana Gas & Electric Company	IN	15.64
4	We Energies (formerly Wisconsin Electric)	MI	15.27
5	Madison Gas & Electric Company	WI	15.21
6	Consumers Energy	MI	14.93
7	We Energies (formerly Wisconsin Electric)	WI	14.54
8	Interstate Power & Light	IA	13.87
9	AEP (Ohio Power Rate Area)	OH	13.62
10	Northern Indiana Public Service Company	IN	13.56
11	WP&L	WI	13.32
12	Northern States Power Company	MN	13.17
13	Northern States Power Company	WI	13.14
14	Northwestern Wisconsin Electric Company	WI	12.92
15	Kansas City Power & Light Company	MO	12.90
16	AEP (Columbus Southern Power Rate Area)	OH	12.79
17	Westar Energy-KGE	KS	12.70
18	Westar Energy-KPL	KS	12.70
19	Northwestern Energy	SD	12.36
20	Black Hills Power, Inc. d/b/a Black Hills Energy	SD	12.26
21	Wisconsin Public Service Corporation	WI	12.03
22	Northern States Power Company	MI	11.99
23	Commonwealth Edison Company	IL	11.98
24	Duke Energy Ohio	OH	11.92
25	Northern States Power Company	SD	11.90
26	Kansas City Power & Light Company	KS	11.86
27	Toledo Edison Company	OH	11.84
28	Duke Energy Indiana	IN	11.75
29	Dayton Power & Light Company	OH	11.63
30	Ohio Edison Company	OH	11.61
31	AEP (Indiana Michigan Power)	IN	11.56
32	Cleveland Electric Illuminating Company	OH	11.51
33	Kansas City Power & Light - MPS	MO	11.36
34	Kansas City Power & Light - L&P	MO	11.35
35	Wisconsin Public Service Corporation	MI	11.15
36	Indianapolis Power & Light Company	IN	11.13
37	Otter Tail Power Company	MN	11.12
38	AEP (Indiana Michigan Power combined MI rate areas)	MI	11.09
39	Montana-Dakota Utilities Company	SD	11.05
40	Minnesota Power Company	MN	10.94
41	MidAmerican Energy	IL	10.58
42	Superior Water, Light & Power Company	WI	10.58
43	MidAmerican Energy	IA	10.38
44	Northern States Power Company	ND	10.31
45	Ameren Missouri	MO	10.29
46	Otter Tail Power Company	ND	10.26
47	Montana-Dakota Utilities Company	ND	10.10
48	Otter Tail Power Company	SD	9.61
49	MidAmerican Energy	SD	8.59

* Weighting = 4 months 2016 summer rate and 8 months 2017 winter rate

Note: This report was prepared by Brubaker & Associates, Inc.
using Edison Electric Institute Typical Bills and Average Rates Reports.

Exhibit B

Residential Electric Rates (¢/kWh) for Investor Owned Utilities

1,000 kWh Consumption

Line	Utility	State	2016/2017 [5]	2016	2015	2014	2013	2012	2011	2010	2009
1	Ameren Illinois Rate Zone I (formerly CIPS)	Illinois			9.58	8.34	8.12	10.10	10.22	9.97	10.62
2	Ameren Illinois Rate Zone II (formerly CILCO)	Illinois			9.15	7.88	8.51	9.54	9.41	10.45	10.71
3	Ameren Illinois Rate Zone III (formerly IP)	Illinois			9.91	8.25	9.19	10.81	10.75	9.95	9.96
4	Commonwealth Edison Company	Illinois	11.98	12.11	12.89	11.10	11.38	11.48	12.20	11.42	11.67
5	MidAmerican Energy	Illinois	10.58	10.17	9.89	9.00	8.34	8.21	7.94	7.99	7.90
6	**Average for Illinois[1]**		**11.92**	**12.01**	**11.28**	**9.68**	**10.46**	**11.09**	**11.58**	**11.01**	**11.26**
7	AEP (Indiana Michigan Power)	Indiana	11.56	11.16	11.00	10.10	9.06	8.52	8.42	8.41	7.77
8	Duke Energy Indiana	Indiana	11.75	11.25	11.75	12.11	11.25	10.75	10.51	9.69	9.85
9	Indianapolis Power & Light Company	Indiana	11.13	10.19	9.70	9.61	9.68	9.31	8.75	8.19	8.28
10	Northern Indiana Public Service Company	Indiana	13.56	11.90	12.98	13.16	13.05	12.55	11.90	11.12	11.53
11	Southern Indiana Gas & Electric Company	Indiana	15.64	15.55	15.59	15.51	15.35	15.54	14.54	13.90	12.95
12	**Average for Indiana**		**12.09**	**11.36**	**11.56**	**11.53**	**11.00**	**10.56**	**10.18**	**9.58**	**9.52**
13	Interstate Power & Light	Iowa	13.87	13.40	13.46	13.11	13.13	10.83	11.73		10.74
14	MidAmerican Energy	Iowa	10.38	10.28	10.03	9.48	9.05	8.74	8.63	8.58	8.58
15	**Average for Iowa**		**11.74**	**11.52**	**11.41**	**10.94**	**10.70**	**9.60**	**9.89**	**8.58**	**9.48**
16	Empire District Electric Company	Kansas			11.27	11.07	10.77	11.13	10.43	9.84	9.19
17	Kansas City Power & Light Company	Kansas	11.86	12.88	11.88	11.54	11.81	11.49	9.63	10.54	9.31
18	Westar Energy-KGE	Kansas	12.70	12.57	11.91	11.60	10.95	10.02	9.57	8.90	7.49
19	Westar Energy-KPL	Kansas	12.70	12.57	11.91	11.60	10.95	10.02	9.57	9.15	7.96
20	**Average for Kansas**		**12.45**	**12.67**	**11.89**	**11.58**	**11.21**	**10.47**	**9.60**	**9.48**	**8.23**
21	AEP (Indiana Michigan Power combined MI rate areas)	Michigan	11.09	10.83	10.40	10.02	10.18	9.45	8.19	7.30	6.73
22	Consumers Energy	Michigan	14.93	14.86	14.83	14.35	13.23	12.63	12.93	11.72	11.45
23	DTE Electric Company	Michigan	16.09	15.42	14.54	14.68	15.08	14.97	13.55	12.96	12.06
24	Edison Sault Electric Company	Michigan									9.12
25	Northern States Power Company	Michigan	11.99	11.73	11.61	11.67	10.39	10.28	9.65	9.49	9.89
26	Upper Peninsula Power Company	Michigan	22.25	22.07	20.75	21.00	18.50	18.64	17.82	16.63	15.36
27	We Energies (formerly Wisconsin Electric)	Michigan	15.27	15.22	15.37	15.18	15.65	15.25	14.50	11.60	10.91
28	Wisconsin Public Service Corporation	Michigan	11.15	10.43	9.82	9.30	9.62	9.68	9.41	9.23	9.75
29	**Average for Michigan**	Michigan	**15.44**	**15.03**	**14.53**	**14.39**	**14.11**	**13.77**	**13.09**	**12.20**	**11.58**
30	Interstate Power & Light	Minnesota			11.02	10.62	10.71	11.80	11.46		9.55
31	Minnesota Power Company	Minnesota	10.94	10.47	10.28	10.17	9.83	9.23	9.86	9.25	8.45
32	Northern States Power Company	Minnesota	13.17	13.29	12.48	12.79	12.49	11.57	11.32	10.83	10.31
33	Otter Tail Power Company	Minnesota	11.12	10.58	10.21	9.57	9.31	9.56	9.31	8.51	8.81
34	**Average for Minnesota**		**12.84**	**12.86**	**12.09**	**12.29**	**12.01**	**11.25**	**11.07**	**10.54**	**10.02**
35	Ameren Missouri	Missouri	10.29	10.88	10.72	10.31	9.73	9.21	8.61	7.70	7.04
36	Empire District Electric Company	Missouri			12.26	12.27	11.64	11.64	11.25	9.88	9.79
37	Kansas City Power & Light - L&P	Missouri	11.35	11.94	12.01	11.97	11.43	10.65	9.39	8.93	7.88
38	Kansas City Power & Light - MPS	Missouri	11.36	11.97	12.01	11.82	11.41	11.50	11.20	10.58	9.31
39	Kansas City Power & Light Company	Missouri	12.90	12.57	11.47	11.07	10.50	10.13	9.84	9.65	8.31
40	**Average for Missouri**		**10.83**	**11.30**	**11.16**	**10.81**	**10.25**	**9.87**	**9.33**	**8.51**	**7.73**
41	Montana-Dakota Utilities Company	North Dakota	10.10	9.11	9.03	8.82	8.16	8.36	8.46	7.66	7.70
42	Northern States Power Company	North Dakota	10.31	10.11	10.38	9.86	9.27	9.04	8.54	8.11	8.04
43	Otter Tail Power Company	North Dakota	10.26	10.13	9.78	9.62	9.04	9.47	8.77	8.67	9.08
44	**Average for North Dakota**		**10.22**	**9.76**	**9.73**	**9.43**	**8.84**	**8.94**	**8.58**	**8.14**	**8.25**
45	AEP (Columbus Southern Power Rate Area)	Ohio	12.79	13.11	14.89	14.48	13.71	12.43	12.18	11.33	10.43
46	AEP (Ohio Power Rate Area)	Ohio	13.62	13.67	15.22	13.94	13.00	11.74	10.44	9.43	8.55
47	Cleveland Electric Illuminating Company	Ohio	11.51	12.54	12.82	12.27	11.79	11.85	11.86	12.86	11.89
48	Dayton Power & Light Company	Ohio	11.63	12.51	13.31	14.01	13.46	13.68	12.82	11.23	10.29
49	Duke Energy Ohio	Ohio	11.92	12.20	12.14	11.84	11.45	12.43	12.75	13.54	11.84
50	Ohio Edison Company	Ohio	11.61	12.63	13.08	12.62	12.10	12.02	11.58	11.34	11.95
51	Toledo Edison Company	Ohio	11.84	12.87	13.06	12.49	11.86	11.94	11.64	11.38	12.77
52	**Average for Ohio**		**12.29**	**12.87**	**13.75**	**13.32**	**12.70**	**12.31**	**11.86**	**11.53**	**10.95**
53	Black Hills Power, Inc. d/b/a Black Hills Energy	South Dakota	12.26	12.00	13.76	12.58	11.70	11.59	11.48	10.20	9.35
54	MidAmerican Energy	South Dakota	8.59	9.05	8.69	8.03	8.24	7.81	8.24	8.10	8.03
55	Montana-Dakota Utilities Company	South Dakota	11.05	11.53	9.64	9.74	9.62	9.51	9.38	9.39	9.42
56	Northern States Power Company	South Dakota	11.90	12.22	12.66	11.49	11.76	10.42	9.41	9.35	8.73
57	Northwestern Energy	South Dakota	12.36	12.00	10.76	9.89	9.65	9.74	9.40	9.22	9.80
58	Otter Tail Power Company	South Dakota	9.61	9.72	9.60	9.02	8.66	8.61	8.30	8.75	8.58
59	**Average for South Dakota**		**11.88**	**11.86**	**12.01**	**11.03**	**10.83**	**10.34**	**9.84**	**9.47**	**9.19**
60	Madison Gas & Electric Company	Wisconsin	15.21	15.02	15.28	15.45	15.45	14.87	14.11	14.01	13.67
61	Northern States Power Company	Wisconsin	13.14	12.87	12.95	12.67	12.28	11.45	10.92	10.65	10.61
62	Northwestern Wisconsin Electric Company	Wisconsin	12.92		13.15	13.25	13.12	12.23	12.06	12.57	12.49
63	Superior Water, Light & Power Company	Wisconsin	10.58		10.73	9.87	10.25	9.35	9.56	9.24	7.64
64	We Energies (formerly Wisconsin Electric)	Wisconsin	14.54	14.64	14.71	14.63	14.44	13.73	13.66	12.84	12.07
65	Wisconsin Public Service Corporation	Wisconsin	12.03	12.05	12.17	12.18	12.63	12.63	12.63	12.23	12.31
66	WP&L	Wisconsin	13.32	12.89	12.32	12.18	11.99	12.27	12.24	12.15	11.27
67	**Average for Wisconsin**		**13.73**	**13.67**	**13.58**	**13.50**	**13.43**	**13.03**	**12.89**	**12.38**	**11.83**
61	**Midwest Average[2]**		**12.75**	**12.73**	**12.58**	**12.21**	**11.89**	**11.56**	**11.31**	**10.77**	**10.40**
62	**U.S. Average[3]**		**13.53** [3]	**13.45** [3]	**13.63** [4]	**13.44** [3]	**12.90**	**12.50**	**12.49**	**12.19**	**12.04**

Note: Weighting = 4 Summer Months and 8 Winter Months

1) Excludes utilities with open access
2) Data not available for Nebraska
3) Data not available for Nebraska or Alaska
4) Data not available for Nebraska, Delaware, or Alaska
5) Weighted 4 months 2016 summer and 8 months 2017 winter.

This report was prepared by Brubaker & Associates, Inc. using Edison Electric Institute Typical Bills and Average Rates Reports

Exhibit B

Exhibit C: Analysis of Proposal for Rapid Amortization of
WEPCO Repair Allowance ADIT
Prepared by Lane Kollen

Description of Repair Allowance Deduction and Accumulated Deferred Income Taxes

The repair allowance liability ADIT is the tax savings effect of an immediate deduction of certain "repair allowance" costs for income tax purposes that a utility otherwise would be required to capitalize and depreciate for income tax purposes. The repair allowance deduction reduces current income tax expense and income taxes payable to the federal and state governments. The deduction improves the utility's cash flow, reduces the need for financing, and reduces financing costs.

Utilities still are required to capitalize and depreciate these construction costs for book accounting and ratemaking purposes. The accelerated repair allowance deduction for income tax purposes in excess of the depreciation expense on the costs capitalized for book accounting purposes creates a temporary (timing) difference. This temporary difference is similar to temporary difference due to accelerated tax depreciation deduction in excess of the straight line book depreciation. The tax effect of this temporary difference (savings) is recorded as a liability ADIT because it normalizes income tax expense as if there had been no accelerated deduction. At the same time, the tax savings results in avoided financing and the related financing costs. That is why the ADIT is subtracted from rate base. In that manner, customers earn a grossed-up rate of return on the income tax savings until the temporary income tax savings are paid to the federal government and the ADIT is fully amortized. The ADIT itself is not amortized to customers as a reduction of income tax expense or the revenue requirement.

<u>WEPCO and WPSC have Already Adopted New Regulations Increasing Repair Allowance Deduction</u>

In 2011 and 2013, the U.S. Treasury issued new regulations (Revenue Procedure 2011-43 for electric distribution and Revenue Procedure 2013-24 for electric generation) that significantly increased the existing "repair allowance" deductions then available to utilities for federal income tax return purposes.

WEPCO and WPSC have already adopted the 2011 and 2013 regulations and taken the increased repair allowance deductions, although WEPCO failed to do so on a timely basis. The repair allowance ADIT related to the 2011 and 2013 regulations already is recorded on WEPCO and WPSC's accounting books. WEC subtracted the repair allowance ADIT, including the amounts related to the 2011 and 2013 regulations, from rate base in the WEPCO and WPSC revenue requirement calculations for 2018 and 2019 (RR-1).

<u>WEC Proposal to Rapidly Amortize WEPCO's Repair Allowance ADIT Significantly Harms Customers</u>

The WEC proposal would rapidly amortize the repair allowance ADIT already on WEPCO's accounting books and create a new regulatory asset. This has three related effects on costs charged to customers, *none* of which would exist if the Commission determines that no deferrals to the Transmission and SSR escrow accounts are necessary. The first effect is the reduction in the repair allowance ADIT and the related increase in the revenue requirement due to the increase in rate base. This would increase rate base by $150.087 million in 2018 and another $195.870 million in 2019, or a total of $345.957 million by December 31, 2019. The second effect is an increase in amortization expense of $6.919 million to recover the regulatory asset over 50 years. The third effect is regulatory asset, which WEPCO would seek to include in rate base. If allowed, it would increase rate base by a total of $345.957 million, the same amount as the reduction in repair allowance liability ADIT.

The increase in rate base due to the reduction in the repair allowance ADIT would increase the WEPCO revenue requirement in 2020 by $38.051 million, all else equal, using the 11.11% grossed-up return reflected in the WEPCO RR-1 filed in this proceeding. Over the proposed 50-year amortization period, the increase in rate base due to the reduction in the repair allowance ADIT would increase the WEPCO revenue requirements by $960.896 million.

The amortization expense due to the amortization of the new regulatory asset over 50 years would increase the WEPCO revenue requirement in 2020 by $6.919 million annually, or a total of $345.957 million over the proposed 50-year amortization period.

The WEC proposal to include the regulatory asset in rate base would increase the WEPCO revenue requirement in 2020 by another $38.051 million, all else equal, using the 11.1% grossed-up return reflected in the WEPCO RR-1 filed in this proceeding. Over the proposed 50-year amortization period, the increase in rate base due to the regulatory asset would increase the WEPCO revenue requirements by $960.896 million.

In total, the WEC proposal would increase the WEPCO revenue requirement by $2,267.749 million over 50 years compared to the Staff, CUB, and WIEG recommendations to terminate all deferrals to the Transmission and SSR escrow accounts after December 31, 2017 and reject the proposed rapid amortization of the repair allowance ADIT.

If, however, the WEC proposal to rapidly amortize the repair allowance ADIT were rejected and the deferrals to the Transmission and SSR escrow accounts were to continue after December 31, 2017, the revenue requirement would be $419.308 million over 50 years, consisting of $345.957 million in amortization expense and $73.351 million for the debt only rate of return.

The following schedules detail the calculations of the amounts cited in this analysis.

Wisconsin Electric Power Company
Docket No. 05-UR-108
WIEG Revenue Requirements Comparisons - New Regulatory Asset
Grossed Up Rate of Return
($ Millions)

	2018	2019	Total
Transmission Deferral - Projected Additions	48.077	91.756	139.833
SSR Deferral - Projected Additions	102.010	104.114	206.124
Total Projected Deferral Additions	150.087	195.870	345.957

		50 Year Amortization Starting 2020	Average Rate Base	As-Filed Grossed Up ROR	Revenue Requirement
	2018		75.044		-
	2019		248.022		-
Yr 1	2020	(6.919)	342.497	11.11%	38.051
Yr 2	2021	(6.919)	335.578	11.11%	37.283
Yr 3	2022	(6.919)	328.659	11.11%	36.514
Yr 4	2023	(6.919)	321.740	11.11%	35.745
Yr 5	2024	(6.919)	314.821	11.11%	34.977
Yr 6	2025	(6.919)	307.902	11.11%	34.208
Yr 7	2026	(6.919)	300.983	11.11%	33.439
Yr 8	2027	(6.919)	294.063	11.11%	32.670
Yr 9	2028	(6.919)	287.144	11.11%	31.902
Yr 10	2029	(6.919)	280.225	11.11%	31.133
Yr 11	2030	(6.919)	273.306	11.11%	30.364
Yr 12	2031	(6.919)	266.387	11.11%	29.596
Yr 13	2032	(6.919)	259.468	11.11%	28.827
Yr 14	2033	(6.919)	252.549	11.11%	28.058
Yr 15	2034	(6.919)	245.629	11.11%	27.289
Yr 16	2035	(6.919)	238.710	11.11%	26.521
Yr 17	2036	(6.919)	231.791	11.11%	25.752
Yr 18	2037	(6.919)	224.872	11.11%	24.983
Yr 19	2038	(6.919)	217.953	11.11%	24.215
Yr 20	2039	(6.919)	211.034	11.11%	23.446
Yr 21	2040	(6.919)	204.115	11.11%	22.677
Yr 22	2041	(6.919)	197.195	11.11%	21.908
Yr 23	2042	(6.919)	190.276	11.11%	21.140
Yr 24	2043	(6.919)	183.357	11.11%	20.371
Yr 25	2044	(6.919)	176.438	11.11%	19.602
Yr 26	2045	(6.919)	169.519	11.11%	18.834
Yr 27	2046	(6.919)	162.600	11.11%	18.065
Yr 28	2047	(6.919)	155.681	11.11%	17.296
Yr 29	2048	(6.919)	148.762	11.11%	16.527
Yr 30	2049	(6.919)	141.842	11.11%	15.759
Yr 31	2050	(6.919)	134.923	11.11%	14.990
Yr 32	2051	(6.919)	128.004	11.11%	14.221
Yr 33	2052	(6.919)	121.085	11.11%	13.453
Yr 34	2053	(6.919)	114.166	11.11%	12.684
Yr 35	2054	(6.919)	107.247	11.11%	11.915
Yr 36	2055	(6.919)	100.328	11.11%	11.146
Yr 37	2056	(6.919)	93.408	11.11%	10.378
Yr 38	2057	(6.919)	86.489	11.11%	9.609
Yr 39	2058	(6.919)	79.570	11.11%	8.840
Yr 40	2059	(6.919)	72.651	11.11%	8.072
Yr 41	2060	(6.919)	65.732	11.11%	7.303
Yr 42	2061	(6.919)	58.813	11.11%	6.534
Yr 43	2062	(6.919)	51.894	11.11%	5.765
Yr 44	2063	(6.919)	44.974	11.11%	4.997
Yr 45	2064	(6.919)	38.055	11.11%	4.228
Yr 46	2065	(6.919)	31.136	11.11%	3.459
Yr 47	2066	(6.919)	24.217	11.11%	2.691
Yr 48	2067	(6.919)	17.298	11.11%	1.922
Yr 49	2068	(6.919)	10.379	11.11%	1.153
Yr 50	2069	(6.919)	3.460	11.11%	0.384
	Total Revenue Requirement Over 50 Years				960.896

Exhibit C

Wisconsin Electric Power Company
Docket No. 05-UR-108
CUB and WIEG Revenue Requirement Summary
($ Millions)

Company Projected Repair Allowance ADIT Regulatory Asset Additions	**2018**	**2019**	**Total**
Transmission Expense Deferral - Company Projected Additions	48.077	91.756	139.833
Lost SSR Revenue Deferral - Projected Additions	102.010	104.114	206.124
Total Projected Deferral Additions	150.087	195.870	345.957

	Cumulative Revenue Requirement
Cumulative Amortization of Projected Repair Allowance ADIT Regulatory Asset Deferrals	345.957
Grossed-Up Return on Reduction in Repair Allowance ADIT - Transmission	370.424
Grossed-Up Return on Reduction in Repair Allowance ADIT - SSR	549.492
Grossed-up Return on New Regulatory Asset Due to Rapid Amort Repair Allowance ADIT	960.896
Total Revenue Requirement Due to Company Proposal	2,226.769
Cumulative Amortization of Projected Add'l Transmission and SSR Escrow Account Deferrals	345.957
Short Term Debt Return on Add'l Transmission Escrow Account Deferrals	73.351
No Return on Add'l SSR Escrow Account Deferrals	-
Additional Recovery Due to WEC Proposal to Rapidly Amortize Repair Allow ADIT	419.308
Effect of WEC Proposal Compared to Staff Memorandum	1,807.461

Exhibit C

Wisconsin Electric Power Company
Docket No. 05-UR-108
WIEG Revenue Requirements Comparisons - ADIT in Lieu of Transmission Expense Deferral
Grossed Up Rate of Return vs. Debt Only Rate of Return
($ Millions)

	2018	2019	Total
Transmission Deferral - Projected Additions	48.077	91.756	139.833
SSR Deferral - Projected Additions	102.010	104.114	206.124
Total Projected Deferral Additions	150.087	195.870	345.957

ADIT in Lieu of Transmission Expense Deferral

		50 Year Amortization Starting 2018	Average Rate Base	As-Filed Grossed Up ROR	Revenue Requirement	Staff ROR Recommended	Revenue Requirement	Difference Revenue Requirement
Yr 1	2018	(2.797)	22.640	11.11%	2.515	2.20%	0.498	2.017
Yr 2	2019	(2.797)	89.760	11.11%	9.972	2.20%	1.975	7.998
Yr 3	2020	(2.797)	132.841	11.11%	14.759	2.20%	2.923	11.836
Yr 4	2021	(2.797)	130.045	11.11%	14.448	2.20%	2.861	11.587
Yr 5	2022	(2.797)	127.248	11.11%	14.137	2.20%	2.799	11.338
Yr 6	2023	(2.797)	124.451	11.11%	13.827	2.20%	2.738	11.089
Yr 7	2024	(2.797)	121.655	11.11%	13.516	2.20%	2.676	10.839
Yr 8	2025	(2.797)	118.858	11.11%	13.205	2.20%	2.615	10.590
Yr 9	2026	(2.797)	116.061	11.11%	12.894	2.20%	2.553	10.341
Yr 10	2027	(2.797)	113.265	11.11%	12.584	2.20%	2.492	10.092
Yr 11	2028	(2.797)	110.468	11.11%	12.273	2.20%	2.430	9.843
Yr 12	2029	(2.797)	107.671	11.11%	11.962	2.20%	2.369	9.594
Yr 13	2030	(2.797)	104.875	11.11%	11.652	2.20%	2.307	9.344
Yr 14	2031	(2.797)	102.078	11.11%	11.341	2.20%	2.246	9.095
Yr 15	2032	(2.797)	99.281	11.11%	11.030	2.20%	2.184	8.846
Yr 16	2033	(2.797)	96.485	11.11%	10.719	2.20%	2.123	8.597
Yr 17	2034	(2.797)	93.688	11.11%	10.409	2.20%	2.061	8.348
Yr 18	2035	(2.797)	90.891	11.11%	10.098	2.20%	2.000	8.098
Yr 19	2036	(2.797)	88.095	11.11%	9.787	2.20%	1.938	7.849
Yr 20	2037	(2.797)	85.298	11.11%	9.477	2.20%	1.877	7.600
Yr 21	2038	(2.797)	82.501	11.11%	9.166	2.20%	1.815	7.351
Yr 22	2039	(2.797)	79.705	11.11%	8.855	2.20%	1.754	7.102
Yr 23	2040	(2.797)	76.908	11.11%	8.544	2.20%	1.692	6.853
Yr 24	2041	(2.797)	74.111	11.11%	8.234	2.20%	1.630	6.603
Yr 25	2042	(2.797)	71.315	11.11%	7.923	2.20%	1.569	6.354
Yr 26	2043	(2.797)	68.518	11.11%	7.612	2.20%	1.507	6.105
Yr 27	2044	(2.797)	65.722	11.11%	7.302	2.20%	1.446	5.856
Yr 28	2045	(2.797)	62.925	11.11%	6.991	2.20%	1.384	5.607
Yr 29	2046	(2.797)	60.128	11.11%	6.680	2.20%	1.323	5.357
Yr 30	2047	(2.797)	57.332	11.11%	6.370	2.20%	1.261	5.108
Yr 31	2048	(2.797)	54.535	11.11%	6.059	2.20%	1.200	4.859
Yr 32	2049	(2.797)	51.738	11.11%	5.748	2.20%	1.138	4.610
Yr 33	2050	(2.797)	48.942	11.11%	5.437	2.20%	1.077	4.361
Yr 34	2051	(2.797)	46.145	11.11%	5.127	2.20%	1.015	4.112
Yr 35	2052	(2.797)	43.348	11.11%	4.816	2.20%	0.954	3.862
Yr 36	2053	(2.797)	40.552	11.11%	4.505	2.20%	0.892	3.613
Yr 37	2054	(2.797)	37.755	11.11%	4.195	2.20%	0.831	3.364
Yr 38	2055	(2.797)	34.958	11.11%	3.884	2.20%	0.769	3.115
Yr 39	2056	(2.797)	32.162	11.11%	3.573	2.20%	0.708	2.866
Yr 40	2057	(2.797)	29.365	11.11%	3.262	2.20%	0.646	2.616
Yr 41	2058	(2.797)	26.568	11.11%	2.952	2.20%	0.585	2.367
Yr 42	2059	(2.797)	23.772	11.11%	2.641	2.20%	0.523	2.118
Yr 43	2060	(2.797)	20.975	11.11%	2.330	2.20%	0.461	1.869
Yr 44	2061	(2.797)	18.178	11.11%	2.020	2.20%	0.400	1.620
Yr 45	2062	(2.797)	15.382	11.11%	1.709	2.20%	0.338	1.371
Yr 46	2063	(2.797)	12.585	11.11%	1.398	2.20%	0.277	1.121
Yr 47	2064	(2.797)	9.788	11.11%	1.087	2.20%	0.215	0.872
Yr 48	2065	(2.797)	6.992	11.11%	0.777	2.20%	0.154	0.623
Yr 49	2066	(2.797)	4.195	11.11%	0.466	2.20%	0.092	0.374
Yr 50	2067	(2.797)	1.398	11.11%	0.155	2.20%	0.031	0.125
	Total Revenue Requirement Over 50 Years				370.424		73.351	297.073

Exhibit C

Wisconsin Electric Power Company
Docket No. 05-UR-108
WIEG Revenue Requirements Comparisons - ADIT in Lieu of SSR Revenue Deferral
Grossed Up Rate of Return vs. Debt Only Rate of Return
($ Millions)

	2018	2019	Total
Transmission Deferral - Projected Additions	48.077	91.756	139.833
SSR Deferral - Projected Additions	102.010	104.114	206.124
Total Projected Deferral Additions	150.087	195.870	345.957

ADIT in Lieu of SSR Revenue Deferral

		50 Year Amortization Starting 2018	Average Rate Base	As-Filed Grossed Up ROR	Revenue Requirement	Staff ROR Recommended	Revenue Requirement	Difference Revenue Requirement
Yr 1	2018	(4.122)	48.944	11.11%	5.438	0.00%	-	5.438
Yr 2	2019	(4.122)	147.883	11.11%	16.430	0.00%	-	16.430
Yr 3	2020	(4.122)	195.818	11.11%	21.755	0.00%	-	21.755
Yr 4	2021	(4.122)	191.695	11.11%	21.297	0.00%	-	21.297
Yr 5	2022	(4.122)	187.573	11.11%	20.839	0.00%	-	20.839
Yr 6	2023	(4.122)	183.450	11.11%	20.381	0.00%	-	20.381
Yr 7	2024	(4.122)	179.328	11.11%	19.923	0.00%	-	19.923
Yr 8	2025	(4.122)	175.205	11.11%	19.465	0.00%	-	19.465
Yr 9	2026	(4.122)	171.083	11.11%	19.007	0.00%	-	19.007
Yr 10	2027	(4.122)	166.960	11.11%	18.549	0.00%	-	18.549
Yr 11	2028	(4.122)	162.838	11.11%	18.091	0.00%	-	18.091
Yr 12	2029	(4.122)	158.715	11.11%	17.633	0.00%	-	17.633
Yr 13	2030	(4.122)	154.593	11.11%	17.175	0.00%	-	17.175
Yr 14	2031	(4.122)	150.471	11.11%	16.717	0.00%	-	16.717
Yr 15	2032	(4.122)	146.348	11.11%	16.259	0.00%	-	16.259
Yr 16	2033	(4.122)	142.226	11.11%	15.801	0.00%	-	15.801
Yr 17	2034	(4.122)	138.103	11.11%	15.343	0.00%	-	15.343
Yr 18	2035	(4.122)	133.981	11.11%	14.885	0.00%	-	14.885
Yr 19	2036	(4.122)	129.858	11.11%	14.427	0.00%	-	14.427
Yr 20	2037	(4.122)	125.736	11.11%	13.969	0.00%	-	13.969
Yr 21	2038	(4.122)	121.613	11.11%	13.511	0.00%	-	13.511
Yr 22	2039	(4.122)	117.491	11.11%	13.053	0.00%	-	13.053
Yr 23	2040	(4.122)	113.368	11.11%	12.595	0.00%	-	12.595
Yr 24	2041	(4.122)	109.246	11.11%	12.137	0.00%	-	12.137
Yr 25	2042	(4.122)	105.123	11.11%	11.679	0.00%	-	11.679
Yr 26	2043	(4.122)	101.001	11.11%	11.221	0.00%	-	11.221
Yr 27	2044	(4.122)	96.878	11.11%	10.763	0.00%	-	10.763
Yr 28	2045	(4.122)	92.756	11.11%	10.305	0.00%	-	10.305
Yr 29	2046	(4.122)	88.633	11.11%	9.847	0.00%	-	9.847
Yr 30	2047	(4.122)	84.511	11.11%	9.389	0.00%	-	9.389
Yr 31	2048	(4.122)	80.388	11.11%	8.931	0.00%	-	8.931
Yr 32	2049	(4.122)	76.266	11.11%	8.473	0.00%	-	8.473
Yr 33	2050	(4.122)	72.143	11.11%	8.015	0.00%	-	8.015
Yr 34	2051	(4.122)	68.021	11.11%	7.557	0.00%	-	7.557
Yr 35	2052	(4.122)	63.898	11.11%	7.099	0.00%	-	7.099
Yr 36	2053	(4.122)	59.776	11.11%	6.641	0.00%	-	6.641
Yr 37	2054	(4.122)	55.653	11.11%	6.183	0.00%	-	6.183
Yr 38	2055	(4.122)	51.531	11.11%	5.725	0.00%	-	5.725
Yr 39	2056	(4.122)	47.409	11.11%	5.267	0.00%	-	5.267
Yr 40	2057	(4.122)	43.286	11.11%	4.809	0.00%	-	4.809
Yr 41	2058	(4.122)	39.164	11.11%	4.351	0.00%	-	4.351
Yr 42	2059	(4.122)	35.041	11.11%	3.893	0.00%	-	3.893
Yr 43	2060	(4.122)	30.919	11.11%	3.435	0.00%	-	3.435
Yr 44	2061	(4.122)	26.796	11.11%	2.977	0.00%	-	2.977
Yr 45	2062	(4.122)	22.674	11.11%	2.519	0.00%	-	2.519
Yr 46	2063	(4.122)	18.551	11.11%	2.061	0.00%	-	2.061
Yr 47	2064	(4.122)	14.429	11.11%	1.603	0.00%	-	1.603
Yr 48	2065	(4.122)	10.306	11.11%	1.145	0.00%	-	1.145
Yr 49	2066	(4.122)	6.184	11.11%	0.687	0.00%	-	0.687
Yr 50	2067	(4.122)	2.061	11.11%	0.229	0.00%	-	0.229
	Total Revenue Requirement Over 50 Years				549.492		-	549.492

Exhibit C

Wisconsin Electric Power Company
Docket No. 05-UR-108
Summary WIEG Cost of Capital Recommendations
($ Millions)

I. Wisconsin Electric Power Company (Electric) Cost of Capital Per Filing Excluding NIRB Reconciliation

Source: Exhibit 7

	Capital	Capital Ratio	Component Costs	Weighted Avg Cost	Grossed Up Cost	After Tax Weighted Avg Cost
Short Term Debt	$351.208	5.12%	2.59%	0.13%	0.13%	0.08%
Long Term Debt	$2,835.000	41.37%	4.66%	1.93%	1.93%	1.16%
Preferred Equity	$30.450	0.44%	3.95%	0.02%	0.02%	0.02%
Common Equity	$3,636.561	53.06%	10.20%	5.41%	9.03%	5.41%
Total Capital	$6,853.219	100.0%		7.49%	11.11%	6.67%

Exhibit C

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Joint Application of Wisconsin Electric Power Company and Wisconsin Gas LLC for a Base Rate Freeze for Test Years 2018 and 2019	Docket No. 5-UR-108
and	and
Application of Wisconsin Public Service Corporation for a Base Rate Freeze for Test Years 2018 and 2019	Docket No. 6690-UR-125

AFFIDAVIT OF KAVITA MAINI

STATE OF WISCONSIN)
) ss.
COUNTY OF WAUKESHA)

Kavita Maini, being first duly sworn, on oath, deposes and states as follows:

1. I am the principal and sole owner of KM Energy Consulting, LLC. I make this affidavit upon personal knowledge and submit it in support of Joint Comments of the Citizens Utility Board ("CUB") and the Wisconsin Industrial Energy Group ("WIEG") on the Commission Staff's Memorandum in the above-captioned proceedings.
2. I have monitored Midcontinent Independent System Operator ("MISO") activities on behalf of WIEG since WIEG became a MISO member in 2006. Since that time, I have represented WIEG on many MISO task forces, committees, and working groups. I have provided technical comments in Federal Energy Regulatory Commission ("FERC") proceedings, several of which have involved MISO-related activities. I was WIEG's and CUB's consulting expert, preparing joint comments in the PSC's Section 206 complaint to FERC challenging the cost allocation for Presque Isle Power Plant ("PIPP") Suspension System

Supply Resource ("SSR") payments (FERC Docket No. EL14-34-000). I often work cooperatively with the Commission staff on MISO-related matters.

3. WEPCO has owned and operated PIPP for decades. PIPP is located in Michigan's Upper Peninsula (the "UP"), where WEPCO has long-served retail customers.

4. Costs associated with operating PIPP and the return on and of investment in PIPP are included in WEPCO's Wisconsin retail jurisdiction (and, therefore, are reflected in Wisconsin retail rates).

5. Until 2013, two mines in the UP accounted for 80% of WEPCO's UP retail load.

6. In 2013, taking advantage of Michigan law, the mines and other customers switched from WEPCO and started purchasing their electricity needs from an alternative supplier, leaving WEPCO with 85% less load for commodity supply. With the loss of the mines in particular, WEPCO concluded that PIPP was no longer cost-justified and would be retired.

7. MISO stopped WEPCO from retiring PIPP. It had "identified" PIPP as a System Support Resource ("SSR"), prohibiting PIPP's retirement because MISO had concluded that PIPP must continue to operate to assure reliability in the UP. PIPP would need to run until other viable alternatives were implemented such as building new generation or transmission.

8. Had WEPCO been able to retire PIPP, it would have saved substantial O&M costs. Because PIPP became an SSR, it had to operate, which required WEPCO to expend O&M costs to maintain generation at PIPP even though it had very little retail load. It had the same expenses as earlier, but 85% fewer revenues from commodity sales.

9. MISO negotiates agreements with utilities to compensate them for the costs of continuing operation of an SSR. In 2014, WEPCO was expected to receive $90.7 million in SSR payments on a Wisconsin jurisdictional basis for the continued operation of PIPP in 2015.

The Commission, on December 23, 2014, approved WEPCO's 2015 Test Year revenue requirement, which included a reduction of $90.7 million in SSR payments. The Commission also ordered escrow accounting for any difference between actual SSR revenue and the Test Year estimate.

10. In August 2014, while WEPCO's rate case for 2015 proceeded, its parent WEC Energy Company filed an application with the Commission to acquire Integrys Energy, parent of Wisconsin Public Service Corporation (the "Merger"). The proceeding is 9400-YO-100. The Merger required the approval of regulators in Wisconsin, Michigan, Illinois, and Minnesota, and the FERC.

11. In October 2014, the State of Michigan and the UP mines, filed protests in FERC's review of the Merger (docket EL14-126-000), asserting that it was not consistent with the public interest. *See* Protest filed on October 17, 2014.

12. On January 15, 2015, WEC had a signed Agreement for Merger Settlement with Michigan Public Service Commission ("MPSC") Staff, the State of Michigan, the UP mines and others. The Mines and Michigan agreed to withdraw their protest at FERC and not challenge the Michigan Commission's order approving the Merger in that state (docket U-17682).

13. The State of Michigan and the UP Mines withdrew their protest at FERC on January 20, 2015.

14. On January 30, 2015, a Settlement Agreement ("Original Settlement") largely reflecting the conditions included in the Agreement to Merger Settlement was submitted to the Michigan Public Service Commission. In exchange for the Michigan parties agreeing not to oppose the Merger, WEC agreed, among other things, to terminate the PIPP SSR (which had the effect

of eliminating approximately 92% of the SSR revenues that were expected in 2015). Specifically, Condition 1(iii) of the agreement required:

> Termination of the PIPP SSR Agreement between MISO and Wisconsin Electric no later than the closing date of the Proposed Transaction; provided however, that such termination will not prejudice the positions taken by any of the Parties in any proceedings regarding the SSR agreements, or the amounts of or allocation of SSR expenses and credits for operations conducted and service provided prior to the closing date of the sale of Wisconsin Electric's Michigan Electric Business.

15. On February 5, 2015, back in Wisconsin, WEC witness Scott Lauber confirmed WEC's intent of the Settlement in Michigan in Supplemental testimony submitted in the Merger docket

> if the Commission does not approve the Michigan Asset Transaction it will cast doubt on WEC's acquisition of Integrys. Several parties in Michigan, including the Governor's Office, the Attorney General, the Empire and Tilden Mines, and others had opposed the WEC/Integrys transaction at both the Michigan Public Service Commission and at FERC. As part of the settlement that led to the Michigan Asset Transaction, those parties withdrew their opposition to the merger. If the Michigan Asset Transaction does not receive required regulatory approvals (including Wisconsin regulatory approval), it will not close, and the opposing parties in Michigan will be free to once again oppose the WEC/Integrys transaction.

16. In order to obtain Michigan approval of the merger, WEPCO agreed to end PIPP's SSR designation, and did so effective January 31, 2015. On February 19, 2015, pursuant to WEPCO's request, MISO filed its PIPP SSR termination at FERC, retroactive to February 1, 2015. *See* FERC docket ER15-1070-000. Thus, of the $90.7 million that was expected, and authorized for escrow treatment less than six weeks earlier, revenues were limited to a single month. WEPCO did not receive in 2015 around 92% of expected SSR revenues or $83 million.

17. Pursuant to still another agreement related to Michigan approvals, the mines agreed to return to WEPCO as full requirement customers and WEC agreed that it would take no action that would result in PIPP again becoming an SSR before December 31, 2019.

18. WEC successfully received the Wisconsin Commission's approval of the Merger, which came with several conditions, including the following:

> Due to the timing and changing nature of the Settlement Agreement in Michigan, there is uncertainty as to whether the commitments made by the applicant to obtain approval of the acquisition in Michigan could affect ratepayers in Wisconsin. **Therefore, the Commission finds it reasonable that any costs borne by WEC Energy, WEPCO, Integrys Energy, or WPSC to obtain agreement from any party for the transaction's approval in Michigan be considered transaction costs**. *(emphasis added)* As noted, transaction costs are those costs that are incurred in connection with the execution of the acquisition approval, and are not eligible for recovery from Wisconsin ratepayers. Further, it is reasonable to require that if such costs are incurred by WEC Energy or Integrys Energy, it is reasonable that they remain at the holding company level and not be allocated to the utilities.
>
> See page 31, Commission Order in the Merger docket

19. I have prepared a more complete history and chronology of events regarding PIPP SSR, which is provided in Attachment 1.

Dated: August 2, 2017

Kavita Maini

Kavita Maini

Signed and sworn to before me
This 2nd day of August 2017.

Notary Public, State of Wisconsin
My Commission expires: Never

Exhibit D

Attachment D1:

PIPP SSR Balance is a Transaction Cost

Prepared by

Kavita Maini

I. INTRODUCTION

WEPCO's plan to address the future of the Presque Isle Power Plant ("PIPP") goes as far back as at least November 2012, when the utility announced that it was pursuing joint ownership with Wolverine Power Supply Cooperative ("Wolverine"). In February 21, 2013, the two companies submitted a petition proposing a joint venture transaction. The proposed transaction consisted of Wolverine paying $140 million for environmental retrofits required at that time to comply with federal regulations. In exchange Wolverine would receive one-third ownership in PIPP. This transaction was approved in Wisconsin in docket 6630-BS-100 in June 2013. By December 2013, this transaction was dissolved because WEPCO announced its intent to retire PIPP due to losing 85% of its retail load to alternative suppliers, most of which was associated with the load of Tilden Mining Company L.C. and Empire Iron Mining Partnership (collectively, the "Mines").[1]

The SSR escrow relates to WEPCO's 2014 announcement to retire PIPP. Despite WEPCO's intent to retire the plant, the Midcontinent Independent System Operator, Inc. (MISO) triggered the SSR status when it designated that PIPP must operate to assure reliability in the Upper Peninsula. As a result, the plant could not be shut down until other viable options such as new generation or transmission facilities were built (See MISO Tariff Section 38.2.7.) The continued costs of operating PIPP as an SSR were allocated almost entirely to Michigan customers in accordance with current MISO tariffs. The cost allocation approach currently in MISO's tariff was rectified from an earlier pro rata approach as a result of the Wisconsin Commission's proactive

[1] See Michigan Public Act 286 of 2008. While Michigan retail choice law limits retail choice at 10% of a utility's load, the Mines were exempt from this cap due to a special exemption in Public Act 286, which states as follows: "Section 10a 1. (d) Notwithstanding any other provision of this section, any customer operating an iron ore mining facility, iron ore processing facility, or both, located in the Upper Peninsula of this state, shall be permitted to purchase all or any portion of its electricity from an alternative electric supplier, regardless of whether the sales exceed 10% of the serving electric utility's average weather-adjusted retail sales."

efforts in filing a Section 206 Complaint regarding the discriminatory, unjust and unreasonable cost allocation method used specifically in the American Transmission Company's ("ATC") footprint at FERC.[2] FERC granted relief in the PSCW's Complaint in an order issued on July 29, 2014.[3] Michigan entities including the Mines, continue to challenge FERC's decision on SSR related cost allocation in the D.C. Circuit Court of Appeals.

While WEPCO's base rate proceeding docket 05-UR-107 was in progress in 2014, MISO submitted two PIPP SSR agreements to FERC for approval:

- A Suspension SSR Agreement, for the period February 1, 2014 through January 31, 2015, which included the going forward operational costs only. The costs estimated for this period were $52.3 million or $4.35 million per month;

- A Retirement SSR Agreement, for the period October 15, 2014 through December 31, 2015, which included going forward operational costs and return on and of PIPP. The SSR monthly costs doubled from $4.35 million to $8.08 million in the Retirement SSR Agreement. Thus, starting October 15, 2014, the monthly costs were reflective of the costs included in the Retirement SSR Agreement. As a result, it was anticipated in the rate case that the SSR revenue payments in 2015 test year revenue would reflect the full cost of operating SSR including return of and on the PIPP investment ($97 million on a total company basis and $90.7 million on a Wisconsin jurisdictional basis).

As noted in the July 19, 2017 Staff Memorandum, the Commission in docket 5-UR-107 had included the expected $90.7 million in revenues in the 2015 test year revenue requirement to ensure that Wisconsin ratepayers would not be required to pay twice for the costs to operate the PIPP, and

---

[2] See PSCW Complaint, docket EL14-34 submitted on April 3, 2014. The PSCW challenged the assignment of costs associated with SSRs in the ATC footprint under the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff ("Tariff"). The tariff prevalent at that time included a special exception for allocation of SSR costs within the ATC footprint. The Complaint sought an order declaring that the ATC-specific carve-out in the Tariff is unjust, unreasonable, and unduly discriminatory. The carve-out approach consisting of allocating costs to load serving entities on a pro rata basis, which essentially resulted in Wisconsin customers, who did not benefit from the PIPP SSR, bearing 92% of the costs and Michigan customers, the beneficiaries of the PIPP operating as an SSR, bearing the remaining 8%.

[3] Order on Complaint, Tariff Filings, and Rehearing, and Establishing Hearing and Settlement Procedures, 148 FERC ¶61,071 (July 29, 2014)

authorized escrow accounting treatment for these SSR revenues. The Commission authorized the SSR escrow to mitigate any risks associated with uncertainty as to the actual amount of SSR revenue WEPCO may have received. Since the term of the SSR agreement was through December 31, 2015, and there was no viable alternative solution in the near term to address the reliability solution in Michigan, there was no expectation that the SSR designation for PIPP would be eliminated.

In early 2015, however, PIPP's designation as an SSR was terminated. WEPCO therefore received approximately one month of the anticipated SSR payment — or $7.56 million out of the $90.7 million expected in 2015 – and 92% of the SSR payments did not materialize. As a result, the SSR escrow balance continues to grow at a compounding rate with an expected balance of $298.8 million by December 31, 2017. (Staff Memorandum, Table on page 19).

II. Termination of the SSR Status

It is important and instructive to follow the chain of events that led to the termination of the SSR status designation for PIPP:

1. August 2014: WEC filed application to acquire Integrys

While the 05-UR-107 base rate case proceeding was in progress, WEC filed its application for approval to acquire the outstanding common stock of Integrys Energy Group, Inc., in docket 9400-YO-100 ("Merger") in August 2014. Aside from Wisconsin, WEPCO submitted contemporaneous filings seeking approval of this transaction in Michigan, Illinois, Minnesota, and at FERC.

2. October 2014: Mines, Michigan Governor and Attorney General protest in FERC docket

The Mines and State of Michigan filed protests in the FERC merger proceeding (docket EL14-126-000) in October 2014, citing market power issues and asserting that the proposed transaction was not in the public interest. The State of Michigan recommended a full evidentiary hearing:

"…to develop a record that examines the proper geographic market that is essential in determining the transactions effect on competition, rates and regulation. Without such a record, the Commission does not have the evidence to determine whether the proposed transaction is consistent with the public interest as required under Order 592."

See Protest filed on October 17, 2014, page 5.

3. **December 23, 2014: Wisconsin Commission authorizes SSR escrow in WEPCO base rate case proceeding**

The Commission authorized the SSR escrow to mitigate any risks associated with uncertainty as to the actual amount of SSR revenue WEPCO would receive. Since the term of the SSR agreement was through December 31, 2015, and there was no viable alternative solution in the near term to address the reliability solution in Michigan, there was no expectation that the SSR designation for PIPP would be eliminated.

4. **January 15, 2015: Michigan parties enter into an Agreement for Merger Settlement[4]**

The Michigan parties, namely, the State of Michigan, through the Governor's office, Attorney General, the Michigan Public Service Commission Staff, the Mines, the Joint Applicants and Upper Peninsula Power Company ("UPPCo") executed an agreement for merger settlement, which spelled out the conditions to be included in the Michigan Public Service Commission's order in approving the Merger in the Michigan proceeding. The document states that the parties will "negotiate and file a settlement agreement in MPSC Case No. U-17682 seeking a Commission order granting approval of the Proposed Transaction, subject to the three conditions enumerated below, and the other relief requested by the Joint Applicants."[5] Aside from a condition that the Mines will return as full requirements customers, this Agreement specified that UPPCO would buy PIPP, the PIPP SSR would be terminated and the Mines and Michigan would agree to withdraw their protest at FERC and not challenge the Michigan Commission's order in the merger

[4] See response to CUB 04-02 in Docket 9400-YO-100

[5] The General Provisions Section of the Agreement for Merger Settlement specifies that the Agreement is for the purpose of facilitating a final resolution of Commission Case No. U-17682 and FERC Docket No. EC14-126.

proceeding in that state (docket U-17682). The following are specific conditions, in part, in the Agreement to Merger Settlement:

Regarding termination of the PIPP SSR, Condition 1(iii) states:

> Termination of the PIPP SSR Agreement between MISO and Wisconsin Electric no later than the closing date of the Proposed Transaction; provided however, that such termination will not prejudice the positions taken by any of the Parties in any proceedings regarding the SSR agreements, or the amounts of or allocation of SSR expenses and credits for operations conducted and service provided prior to the closing date of the sale of Wisconsin Electric's Michigan Electric Business.
>
> The Attorney General, the Commission Staff and the Mines will not seek or support any other conditions on the granting of Commission approval of the Proposed Transaction.

Conditions 2 and 3 require support of the Settlement from the Mines and a commitment from the Mines and State of Michigan to withdraw their protests at FERC:

> 2. None of the parties to this settlement will challenge the Commission's order in U-17682 approving the settlement in any way, including, but not limited to, challenging the lawfulness of the conditions provided in the Commission's order or the adequacy of the record to support the Commission's order. In addition, the parties to the settlement will defend the Commission's order in U-17682 against any challenge by third parties.
>
> > 3. Within five (5) business days of full execution of this Agreement, the Governor, Attorney General and the Mines will: (a) each file a letter in FERC Docket No. EC14-126 stating that they have no objection to FERC's approval of the Proposed Transaction; and (b) refrain from taking any action at FERC seeking to oppose, otherwise condition or delay consummation of the Proposed Transaction.

Thus, it is clear that in order to settle the merger case in Michigan, WEC agreed that it would remove the SSR status for PIPP. In exchange, the Mines and other parties to the agreement for merger settlement agreed to withdraw their protest at FERC and to support the Settlement in Michigan.

5. January 20, 2015: Mines and Attorney General withdraw their protest at FERC

The Mines and State of Michigan acted on their commitment and withdrew their protests at FERC. On January 30, 2015, a Settlement Agreement ("Original Settlement") largely reflecting the conditions included in the Agreement to Merger Settlement was submitted to the MPSC.[6]

6. February 5, 2015: WEC witness Lauber confirms intent of the Settlement in Michigan in Supplemental testimony submitted in the PSCW Merger docket

Mr. Lauber submitted supplemental testimony explaining the various elements of the Settlement Agreement. He emphasized his concerns regarding the implications of the Wisconsin Commission not authorizing both the WEPCO and WPSC asset transfer:

> Q. What are the ramifications if the Commission does not authorize both the Wisconsin Electric and WPSC asset transfers?
>
> A. As discussed above, if the Commission does not approve the Michigan Asset Transaction it will cast doubt on WEC's acquisition of Integrys. Several parties in Michigan, including the Governor's Office, the Attorney General, the Empire and Tilden Mines, and others had opposed the WEC/Integrys transaction at both the Michigan Public Service Commission and at FERC. As part of the settlement that led to the Michigan Asset Transaction, those parties withdrew their opposition to the merger. If the Michigan Asset Transaction does not receive required regulatory approvals (including Wisconsin regulatory approval), it will not close, and the opposing parties in Michigan will be free to once again oppose the WEC/Integrys transaction.

It is apparent from this sequence of events that the signatories to the Agreement to Merger settlement including WEC collaborated with the intent of consummating the merger and WEC agreed to terminate the status of PIPP as an SSR in exchange for requiring the Mines and other parties to support the Settlement Agreement and approval of the Merger in the Michigan proceeding and withdrawal of protests from the FERC proceeding respectively.

7. February 19, 2015: MISO filed PIPP SSR termination at FERC

Consistent with its intent, WEPCO notified MISO that it sought to rescind its notice of retirement for PIPP and continue operating the plant. On February 19, 2015, MISO submitted the PIPP SSR

[6] Since the parties that protested at FERC withdrew their protests at FERC, this condition was not included.

termination notice to FERC. As indicated in the MISO filing, WEPCO requested that the rescission be effective on February 1, 2015 (*i.e.* so that the last day for the SSR status would be January 31, 2015). See FERC docket ER15-1070-000

8. March 13, 2015: An Amended and Restated ("New") Settlement Agreement was submitted

Cloverland Cooperative ("Cloverland"), an intervenor in the docket, protested the Original Settlement Agreement. The proposed sale to UPPCo fell through and a new settlement agreement was submitted to the Michigan Commission on March 13, 2015. The New Settlement Agreement provided that the Mines would return as full requirements customers to WEPCO, and WEPCO would not seek to have PIPP designated as an SSR until "(i) the day the new, clean generation plant located in the Upper Peninsula of Michigan ("Plant"), discussed further below, commences commercial operations; or (ii) December 31, 2019."

Importantly, the New Settlement Agreement does not discuss the termination of the PIPP SSR status and the Mines withdrawing from the FERC proceeding *because these actions had already been taken,* as described above. [7]

By the time that the New Settlement Agreement was filed, the evidentiary part of the Merger proceeding in Wisconsin had already concluded, with sur-surrebuttal testimony filed on March 11, 2015 — two days prior to the New Settlement Agreement filing. Therefore, as a practical matter, the timing did not allow for additional evidence to be added to the record before the PSCW. The Wisconsin Commission rendered its decision in the Merger docket on May 21, 2015. As a result of the timing and changing nature of the settlement in Michigan, the Wisconsin Commission recognized in its decision that the impacts of the New Settlement Agreement had not been analyzed (See Commission Decision, May 21, 2015).

[7] In response to MK-17, WEPCO asserts that the Restated and Amended Agreement completely supersedes the Original Settlement Agreement and that the new does not reference the SSR termination. As discussed above, the addition of certain provisions, such as the Mines and other parties dropping their protest at FERC and WEPCO eliminating the SSR status, was not necessary because these actions had already been implemented in response to previously committed to and agreed upon actions.

III. The SSR Escrow balance is a Transaction Cost

In light of the unfolding events in Michigan described above, in order to protect Wisconsin ratepayers from any costs WEPCO would incur in exchange for approval of the Merger in Michigan, the Wisconsin Commission stated that any such costs would be considered unrecoverable merger transaction costs. Specifically, Wisconsin Commission stated that:

> Due to the timing and changing nature of the Settlement Agreement in Michigan, there is uncertainty as to whether the commitments made by the applicant to obtain approval of the acquisition in Michigan could affect ratepayers in Wisconsin. **Therefore, the Commission finds it reasonable that any costs borne by WEC Energy, WEPCO, Integrys Energy, or WPSC to obtain agreement from any party for the transaction's approval in Michigan be considered transaction costs**. *(emphasis added)* As noted, transaction costs are those costs that are incurred in connection with the execution of the acquisition approval, and are not eligible for recovery from Wisconsin ratepayers. Further, it is reasonable to require that if such costs are incurred by WEC Energy or Integrys Energy, it is reasonable that they remain at the holding company level and not be allocated to the utilities.
>
> Commission Order in the Merger docket; see also Order Point 6, p. 40.

It is clear from the chain of events that the termination of the PIPP SSR status was a quid pro quo for the State of Michigan's agreement not to challenge the Merger. WEPCO voluntarily removed the SSR status to achieve its merger approval in Michigan and eliminate protests in the FERC proceeding. As a result, 92%, or $83 million of the expected SSR revenue payments to WEPCO (on a Wisconsin jurisdictional basis), did not materialize in 2015. This has resulted in the burgeoning SSR deferral balance, which will approach $300 million by December 31, 2017 (excluding mines revenues. Consequently, it is clear that terminating the SSR status was a necessary precondition to approval of the Merger in Michigan and at FERC. Further, it is also clear that the compounding SSR escrow balance exists only because WEC Utilities' / WEPCO voluntarily agreed to end PIPP's SSR designation (and, with that, most all expected SSR revenue payments as well) in exchange for which the state of Michigan, the Mines, and others withdrew their opposition to the Merger. Thus, given the specific sequence of events in this matter, the entire escrow balance is a transaction cost as defined in the Commission order in the merger docket and not eligible for recovery.

Wisconsin Electric Power Company
Docket No. 05-UR-108
Revenue Requirement Related to FERC-Ordered Refund in EL14-12
$

FERC Ordered Refund not Recorded By WEPCO Until 2017	26,246,496
Combined Tax Rate	40.06%
Earnings Effect of FERC Ordered Refund in EL14-12 - Total Company	15,733,423
Wisconsin Jurisdictional Factor	90.80%
Earnings Effect of FERC Ordered Refund in EL14-12 - WI Jurisdiction	14,285,948
50% Rev Sharing Mechanism Factor	50%
50% Rev Sharing Not Recorded in 2016 Transmission Deferral Balance	7,142,974
After Tax Weighted Cost of Capital	6.67%
Annual Return on 50% Rev Sharing Not Recorded in 2016 Transmission Deferral Balance - WI Jurisdiction	952,182
Number of Months (Oct through Dec 2016)	3
3 Month Return on 50% Rev Sharing Not Recorded in 2016 Transmission Deferral Balance - WI Jurisdiction	238,046
50% Rev Sharing Mechanism Factor	50%
50% Rev Sharing Not Recorded in 2016 Transmission Deferral Balance	119,023

Exhibit E

Wisconsin Electric Power Company
Docket No. 05-UR-108
Revenue Requirement Related to Repair Allowance ADIT for Full Year 2016
$

	ADIT True-Ups	Revenue Requirement
Repair Allowance ADIT Recorded in November 2016 Related to December 2015 Catch-Up - Federal	87,201,949	
Repair Allowance ADIT Recorded in November 2016 Related to December 2015 Catch-Up - State	12,585,075	
Total Repair Allowance ADIT Recorded in November 2016 Related to December 2015 Catch-Up	99,787,024	
10 Months Repair Allowance ADIT Recorded in November 2016 Related to December 2015 Catch-Up		72,668,291
Repair Allowance ADIT Recorded in November 2016 Related to First 10 Months in 2016 - Federal	21,817,830	
Repair Allowance ADIT Recorded in November 2016 Related to First 10 Months in 2016 - State	3,229,473	
Total Repair Allowance ADIT Recorded in November 2016 Related to First 10 Months in 2016	25,047,303	
Prorata Amount of Repair Allowance ADIT Added During 2016 - Average Rate Base Effect		10,436,376
Total Additional Repair Allowance ADIT to Recognize for 2016 - Total Co.		83,104,667
Wisconsin Jurisdictional Factor		90.80%
Total Additional Repair Allowance ADIT to Recognize for 2016 - WI Jurisdiction		75,459,038
After Tax Weighted Cost of Capital		6.67%
Return on Additional Repair Allowance ADIT to Recognize for Full 12 Months of 2016 - WI Jurisdiction		5,029,471
50% Sharing of Return on Additional Repair Allowance ADIT		2,514,735

Exhibit E